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ABSTRACT

This document contains a student text, teacher outline, and lesson plan that places beliefs and values at the center of the national discussion on trade policy. The focus of the unit is particularly relevant with the emergence of U.S. trade policy as a vital public issue. In 1993, two key elements of U.S. trade policy--the North American Free Trade Agreement (NAFTA) and the General Agreement on Tariffs and Trade (GATT) wil occupy a prominent position on the national agenda. This course can provide students with the tools to express their views on these important topics. At the core of the unit is a framework of three options for U.S. trade policy. By exploring a wide ranging spectrum of alternatives, students gain a deeper understanding of the values underlying specific policy recommendations. The background readings are intended to introduce students to the terms and concepts essential to a basic understanding of international trade. Part 1 uses the history of television manufacturing as a context for considering changes in the U.S. position in the global economy since World War II. Part 2 allows students to reflect on the impact of shifting trade patterns on the lives of four U.S. citizens. The unit contains a five-day lesson plan and student activities. The lesson plan calls on students to analyze the global economic changes that have shaped the direction of the television industry. The lesson plan concludes with students developing their own options. An official description of NAFTA and an explanation of the ongoing GATT negotiations also is included. (DK)

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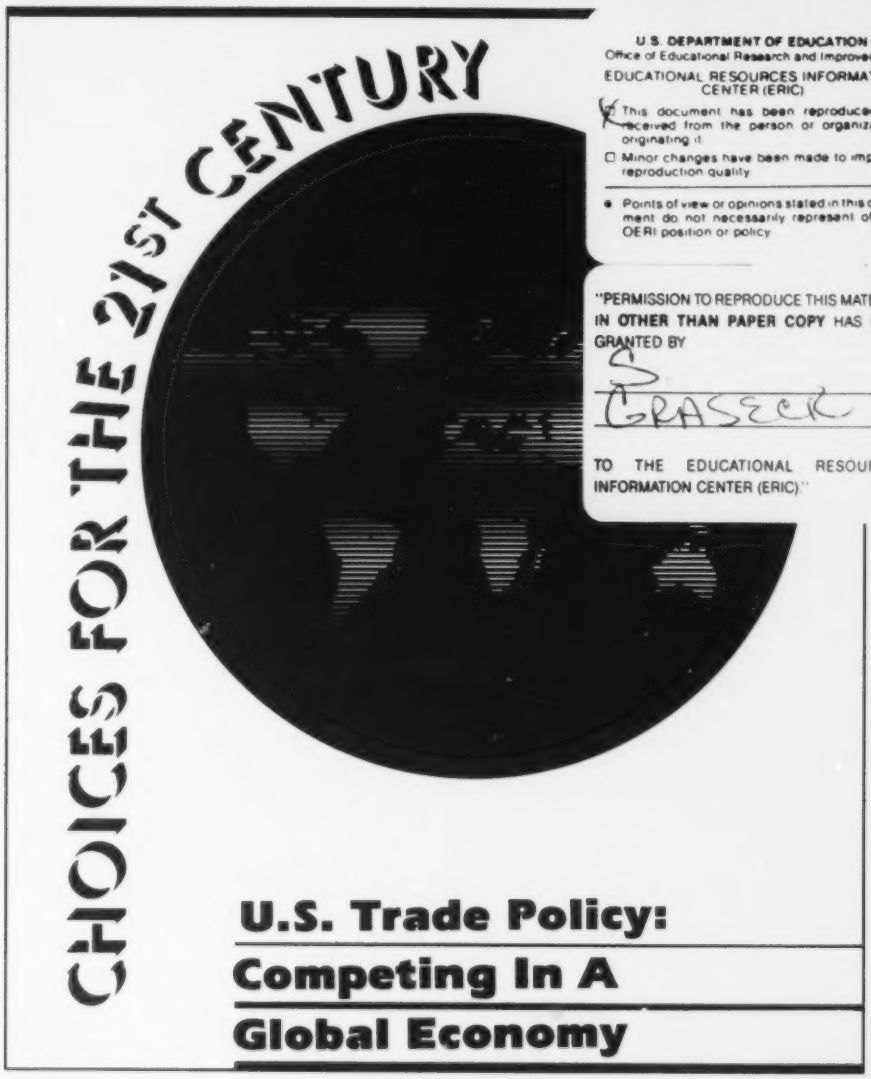

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U.S. Trade Policy: Competing In A Global Economy

SO 023 142

ALTERNATIVES FOR PUBLIC DEBATE AND POLICY DEVELOPMENT

A project of the Center for Foreign Policy Development

Brown University, Box 1948, Providence, RI 02912

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THE CHOICES FOR THE 21ST CENTURY EDUCATION PROJECT was established at the Center for Foreign Policy Development to help citizens think constructively about foreign policy issues, to improve participatory citizenship skills, and to encourage public judgment on policy priorities.

THE CENTER FOR FOREIGN POLICY DEVELOPMENT of the Thomas J. Watson Jr. Institute for International Studies at Brown University is a non-profit research organization. Its mandate is to bring together scholars, policymakers, and the public in a search for policy choices that can lead to a consensus on U.S. national security and foreign policy.

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The Choices for the 21st Century Education Project develops curricula for high schools and colleges on current foreign policy issues and offers workshops, institutes, and in-service programs for high school teachers. Course materials place special emphasis on the importance of educating students in their participatory role as citizens.

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Note to Teachers

When economists talk about U.S. trade policy, fundamental beliefs and values about our country often get lost in conflicting interpretations of economic statistics and pedantic debates over competing theoretical models. *U.S. Trade Policy: Competing in a Global Economy* places beliefs and values at the center of the national discussion on trade policy.

The focus of the unit is particularly relevant with the emergence of U.S. trade policy as a vital public issue. In 1993, two key elements of U.S. trade policy — the North American Free Trade Agreement (NAFTA) and the conclusion of the Uruguay round of the General Agreement on Tariffs and Trade (GATT) — will occupy a prominent position on the national agenda. *U.S. Trade Policy: Competing in a Global Economy* aims to provide students with the tools to express their views on these important topics.

At the core of the unit is a framework of three distinct options for U.S. trade policy. By exploring a wide-ranging spectrum of alternatives, students gain a deeper understanding of the values underlying specific policy recommendations. The background readings are intended to introduce students to the terms and concepts essential to a basic understanding of international trade. Part I uses the history of television manufacturing as a context for considering changes in the United States' position in the global economy since World War II. Part II allows students to reflect on the impact of shifting trade patterns on the lives of four Americans.

U.S. Trade Policy: Competing in a Global Economy includes a five-day lesson plan and student activities. The lesson plan calls on students to analyze the global economic changes that have shaped the direction of the television industry. The second and third day of the lesson plan feature a simulation in which students assume the role of advocates for the three options. The lesson plan concludes with students developing their own options. Teachers are encouraged to take part in a national survey of student attitudes by completing the "Classroom Survey" on page 35. Featured in the supplementary resources are an official description of NAFTA and an explanation of the ongoing GATT negotiations.

Below is an outline of the "Five-Day Lesson Plan" found on pages 23-25. The "Student Text" (pages 1-22) contains the background readings, a glossary, and the three options. The student activities follow the lesson plan.

Homework: Read Part I of the background readings and complete "Study Guide — Part I"

Day One: The U.S. economy in transition
Homework: Read Part II of the background readings and complete "Study Guide — Part II"

Day Two: Role playing the three options: organization and presentation
Homework: Complete preparations for the simulation

Day Three: Role playing the three options: debate and discussion

Day Four: Assessing policy implications
Homework: Read the three options, then fill out "Focusing Your Thoughts" and complete "Your Option Four"

Day Five: Beyond the options
Extra Challenge: Write a letter on proposal for U.S. trade policy.

Part I: A TV Viewer's Guide to the American Economy

In the early 1950s, the United States was just beginning to enter the television age. Programs such as *I Love Lucy* and Groucho Marx's *You Bet Your Life* were attracting millions of viewers and spurring demand for televisions. The percentage of homes in the United States with a television jumped from 6 percent in 1949 to 49 percent in 1953. American manufacturers such as Zenith and RCA were rapidly expanding their production of television sets for the growing market in the United States and beyond.

In economic terms, the world at the beginning of the television age was far different from that of today. In 1950, the U.S. output of goods and services accounted for 38 percent of the world total (compared to 27 percent in 1990). The United States produced half of the world's oil and steel. The sale of American products abroad gave the United States a substantial trade surplus. The American lead in important technologies was unquestioned. Furthermore, U.S. foreign aid programs were helping the war-torn countries of Western Europe and Japan get back on their feet.

As the United States approaches the 21st century, our country's economic position remains enviable. The U.S. economy is still the world's largest — nearly twice the size of our nearest competitor, Japan. In 1992, the United States led the world in exports. The United States also maintains a lead in many of tomorrow's most promising industries, including biotechnology, telecommunications, and aviation. However, the United States no longer dominates the world economy as it did in 1950. Americans have watched their automobile, steel, and consumer electronics industries lose ground to foreign competition. Whereas in 1950 countries throughout the world relied on the United States to loan them money, today the United States is the world's biggest borrower. Instead of a trade surplus, the United States now suffers **trade deficits*** year after year. Manufacturing is no longer the engine of job creation in the U.S. economy, while the vibrant service sector generates a growing share of U.S. exports. What accounts for these dramatic changes?

One way to understand the direction of the American economy over the past four decades is through television. This story is not about what we watch on television, but about the production of televisions. It is about an industry that once symbolized American creativity and productivity, but later came to typify many of the problems afflicting a number of established American corporations. Finally, it is about how the lessons of the television industry are being applied today by forward-looking American companies.

The television boom

When *I Love Lucy* debuted, television production was largely an American industry. Today, the Japanese are the leaders in manufacturing and innovation. In the television industry of tomorrow, however, big Japanese companies may find themselves hard-pressed to maintain their edge. How and why these shifts have taken place explains a good deal about the changing U.S. position in the global economy.

Scientists in the United States and Europe began experimenting with primitive forms of television as far back as the late 1800s. In 1925, television pictures were transmitted between Washington, D.C. and Philadelphia. The following year, more refined pictures were shown at a public demonstration in London. By 1939, RCA (Radio Corporation of America) began broadcasting regularly from the Empire State Building in New York. World War II interrupted the progress of the consumer television industry, but Americans embraced the new technology soon after the war ended.

The United States offered almost boundless opportunities for television manufacturers after the war. American researchers came up with a string of important technological breakthroughs. Meanwhile, the huge market of American consumers was eager to view new programs that were being aired. The American television industry responded by gearing up production. From 1948 until 1962, U.S. firms produced nearly all of the televisions sold in the United States. During the 1950s, more than 66 million sets were manufactured.

Japan rebuilds

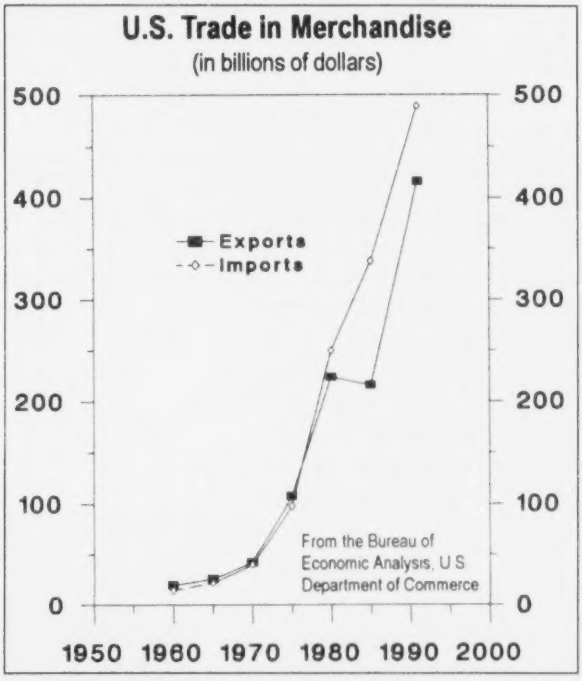
Across the Pacific, Japan in the 1950s was recovering from the devastation of World War II. After

*Terms in bold are defined in the glossary on page 15.

surrendering in 1945, Japan was occupied by American forces for six years. During that period, a new constitution was written and the foundations of a democratic political system were established. The U.S. Cold War struggle against the Soviet Union made Japan a key ally in efforts to contain communism. Japan's economic strength and political stability were seen as vital to U.S. security. As with the democracies of Western Europe, U.S. policymakers gladly opened U.S. markets to Japanese exports, to help speed Japan's recovery.

Few Americans considered Japan in the 1950s to be a threat to the U.S. hold over the television industry. In the minds of most Americans at the time, Japan was associated with the manufacture of cheap toys, souvenirs, pottery, and silk. Japanese light motorcycles and optical goods had begun to change this perception, but Japan hardly seemed poised to produce high-quality televisions.

In fact, Japanese technology was well behind that of the United States and Western Europe when the 1950s began. The Japanese had begun experimenting with television in the 1930s, but their research was cut short by the war. The Japanese realized that they faced great difficulty in catching up with the West. Instead, Japanese companies bought licenses to use television technology that had already been developed in the United States, Great Britain, and the Netherlands. Under these **technology transfers**, the Japanese paid foreign companies a fee and agreed to give them a small percentage of the sales on products that used the technology. RCA, for example, saw technology transfers as a means to earn extra revenue on its pioneering research. At the same time, the company intended to stay a few steps ahead of the Japanese.



The Japanese, however, had a long-term strategy of their own. They planned to improve the technologies they had acquired while looking for opportunities to enter the world market. One of Japan's first success stories was the transistor radio. Invented in 1947 by American physicists at Bell Telephone Laboratories, transistors controlled electrical current more efficiently than vacuum tubes. They were also much smaller and used less energy. In the early 1950s, U.S. radio manufacturers continued to produce large tabletop radios for American homes using bulky vacuum tubes. The few transistor radios being made in the United States were considered novelty items. Japanese companies believed they had found a niche for themselves, and were soon producing millions of inexpensive, pocket-sized transistor radios. Eventually, American radio manufacturers went out of business in the face of Japanese competition.

More important, transistor radios were a stepping stone for Japanese companies seeking to export televisions. Japanese companies built a network for marketing, retailing, and servicing transistor radios in the United States. They also gained expertise in transistorized circuits — the foundation of the consumer electronics industry for the coming decades. By the late 1950s, the Japanese had taken the lead in building portable black-and-white televisions based on transistor technology.

Emerging competition

The next stage in this competition was to be in the area of color television. Again, the early advantage belonged to American industry. RCA had set the standard for color television in 1953, but the technology did not catch on among American consumers until the early 1960s. At that time, American color televisions were superior to Japanese models in quality, and they cost about $150 less. Among American manufacturers, however, only Zenith vigorously pursued efforts to sell the new

sets in Japan. Other companies were content to concentrate their energies on the fast-growing American market.

Japan recognized the potential of the color television market. During the 1950s, Japan had transformed itself from an importer of black-and-white televisions to a major exporter. In 1960, marketing color television was given top priority. The Japanese approach, however, was very different from the American. In the American **free market system**, the government strives to make sure that all businesses have a fair chance to compete. Companies are encouraged to export their products, but the government does not interfere with the workings of the marketplace. In contrast, government, industry, and banks cooperate closely in Japan. As leaders of a small country with few natural resources, Japanese officials have stressed the importance of producing sophisticated manufactured goods for the world market.

Japan's success in the color television industry was due in large part to Japanese **industrial policy**, particularly the work of the Japanese Ministry of International Trade and Industry (MITI). MITI's job is to direct the government's resources to emerging industries that promise to enrich the overall Japanese economy. In the campaign to promote color television, MITI orchestrated a broad national effort.

For example, much of the research and development that won Japanese technology international respect was conducted by the Japan Broadcasting Corporation at government expense. The Bank of Japan, controlled by the Ministry of Finance, provided color television manufacturers with generous loans. MITI promoted intense competition within Japan, and awarded additional financial benefits and research assistance to the winners. Finally, the government protected the color television industry from foreign competition during its early years. Direct foreign investment in television production was forbidden. Moreover, high **tariffs** were imposed on imported color televisions to raise the price of foreign products and give consumers in Japan a good reason to buy Japanese models.

By the late 1960s, Japan's investment in the color television industry was beginning to pay off. From 1965 to 1970, color television production tripled every year. The first Japanese imports arrived in the United States in 1967, and soon gained a foothold in the American market. The contest for control of the color television market, however, was far from decided in the late 1960s. During that time, color television production in the United States was growing at a pace of 40 percent annually and Japanese imports were still confined largely to the low-priced market.

Japan established an edge in the color television market only with the introduction of transistorized, or solid-state technology, in televisions. Solid-state technology enabled manufacturers to replace vacuum tubes with transistors. Energy use was reduced, and viewers no longer had to wait for their sets to warm up before a picture appeared on the screen. Motorola, an American company, was the first to produce an all solid-state color television in 1968. Motorola, however, included the new technology only in its most expensive models. Other American companies were also slow to change. Meanwhile, Japanese manufacturers quickly converted to solid-state technology.

Japan takes the lead

The Japanese government's tax policies encouraged television manufacturers to invest in long-term growth. Companies in Japan consistently outspent their American competitors in exploring new, experimental technologies. Likewise, Japanese companies made sure that their sets could accommodate American and European standards of transmission frequency and electricity. As a result, the 1970s proved to be a decade of change in the color television industry. In 1968, eighteen American companies manufactured televisions. By 1980, only four remained. From 1971 to 1979, the share of the American color television market held by American companies fell from 73 percent to 55 percent. In addition, American companies increasingly relied on foreign manufacturers for their parts. The number of American workers producing televisions fell by 38 percent.

The jobs lost in the American television industry were difficult to replace. Like other areas of manufacturing, such as automobiles and aviation, American television industry workers earned wages that allowed them to create a comfortable, middle-class lifestyle for themselves and their families. Many of those who lost their jobs were unable to

find work at comparable wage levels. They became part of a trend in the last twenty years which has seen the loss of 2.3 million manufacturing jobs and a decline in the standard of living of Americans without a college education.

Japan overtook the United States as the world's leading producer of color televisions in 1976. But while Japanese brands won the praise of American consumers, Americans in the color television industry saw Japan's success as a threat. Americans complained that the Japanese were not competing fairly. They argued that Japanese companies sold televisions in the United States at below their market value to drive American firms out of business. They also maintained that the close cooperation between industry and government in Japan violated free market principles. In the 1970s, the Committee for the Preservation of American Color Television (COMPACT) was formed by American manufacturers and labor unions to lobby the U.S. government to restrict imports from Japan.

U.S. leaders were in a difficult position. Since the end of World War II, the United States had championed the cause of free trade. President Harry Truman and his successors believed that free trade was crucial to the health of the U.S. economy. They recalled that an increase in U.S. tariffs in 1930 had cut American trade in half and led to a deepening of the Great Depression.

In the late 1940s, the United States sought to give the international financial system a more stable foundation. Truman was anxious to restore the prosperity of American trading partners in Europe. The key element in promoting Western Europe's recovery was the Marshall Plan. From 1948 to 1952, the United States supplied $12.5 billion (equivalent to $66 billion in 1992 dollars) in aid to the region. American money also funded the International Monetary Fund and the World Bank — institutions set up to repair war damage and aid poor, developing countries in Asia, Africa, and Latin America. At the same time, the United States pressed for the establishment of a **General Agreement on Tariffs and Trade (GATT)** to remove barriers to international commerce.

With American exports soaring, the United States worked to make GATT a success. Tariffs were substantially reduced. In addition, access to the American market helped Japan and Western Europe recover from the war. As prosperity increased, more and more average people around the world were able to afford automobiles, refrigerators, and other consumer items that were once considered luxuries. World trade increased from $53 billion in 1948 to nearly $1.5 trillion in the mid-1970s. (By 1990, world trade had surpassed $3 trillion.)

COMPACT and other organizations, however, charged that U.S. policy placed the principles of free trade above the interests of American industries. They argued for higher tariffs on Japanese color televisions. President Gerald Ford feared that such a move by the United States would spark retaliatory measures by the country's trading partners and damage the United States' reputation for international leadership.

Like other presidents during the Cold War against the Soviet Union, Ford was most concerned with U.S. security interests. He viewed our country's military alliances with Western Europe and Japan as more important than trade matters. As a compromise, Ford worked out an arrangement whereby imports of Japanese color televisions were limited to 1.56 million sets annually from 1977 to 1980. (Two and a half million sets were imported from Japan in 1976.)

Global strategies

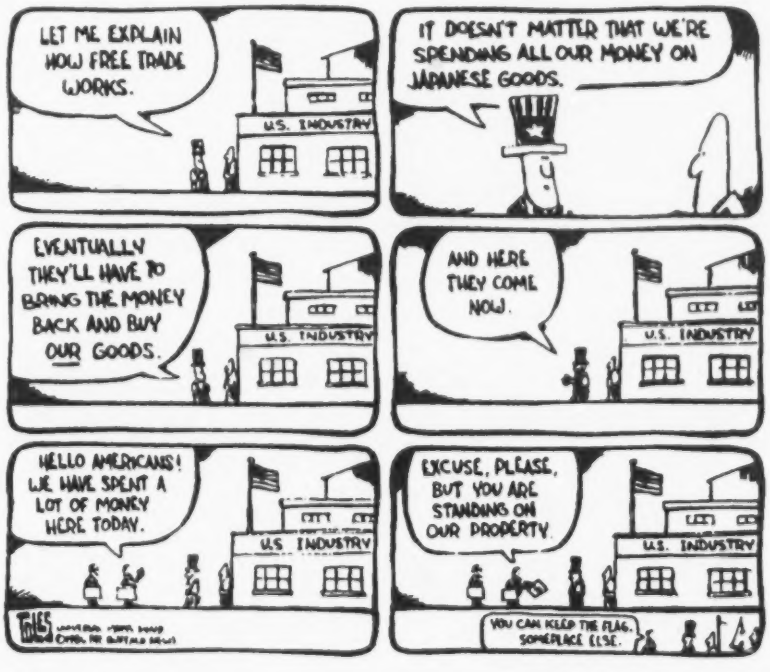
The **import restrictions** imposed in 1977 prompted Japanese companies to adjust their export strategy. In the Western European market, Japanese color televisions had long faced high tariffs. Furthermore, Japan was forced by European countries to accept curbs on its volume of exports beginning in 1974. The measures taken by countries within the **trading bloc** known as the European Community (EC) were designed to protect European manufacturers, even if they deprived consumers of a chance to buy better products at a lower price. To gain access to the EC market, Japanese companies built factories in Western Europe.

As U.S. trade barriers rose, Japanese companies likewise moved into the United States. In 1972, Sony became the first Japanese firm to open a plant in the United States. Another Japanese electronics giant, Matsushita (which markets the Panasonic brand), bought the television division of Motorola in 1974. The 1977 import restrictions led other major Japanese companies to build factories in the United States. MITI encouraged this process by forming the Plant Export Basic Policy Committee.

The Japanese-owned plants created jobs for Americans, but generally the plants served as assembly facilities that required low-skilled workers. Moreover, wages were usually lower than in full-scale production facilities. The most sophisticated television components, as well as the research and development, came from Japan. Meanwhile, both Japanese and American television companies set up factories in developing countries to take advantage of low-wage labor. Plants in Taiwan, Mexico, and other nations supplied television parts for an increasingly global manufacturing network. Matsushita, for example, built a plant in Tijuana, Mexico in the 1970s to provide its factory in Illinois with television chassis and tuner assemblies. Even Zenith, whose advertising once boasted that its televisions were made entirely in the United States, eventually opened plants abroad to cut costs.

By the end of the 1970s, Japan had established its dominance not only in the color television market but in the general field of consumer electronics as well. At the same time, however, Japanese companies continued to look for new markets. With the manufacture of color televisions increasingly being transferred to overseas plants, Japanese factories had the capacity to shift into new areas. One of the most important products to emerge during this period of transition was the videocassette recorder, or VCR.

The VCR, originally known as the videotape recorder, was first introduced by an American company, Ampex Corporation, in 1956. American firms, however, considered the technology too complex to serve as the basis for an affordable consumer product. Nonetheless, Japanese companies acquired the technology from Ampex and focused on the consumer market. Prices were initially high — the first Sony Betamax models cost $1,000 to produce — but they fell quickly as the pace of manufacturing increased. By 1978, Japanese companies were manufacturing nearly 1.5 million VCRs. Within Japan, Sony's Betamax standard lost out to the VHS format developed by Matsushita. American firms were not part of the competition. Instead, they bought VCRs from Japan and sold them under their own brand names.


LET ME EXPLAIN HOW FREE TRADE WORKS.
U.S. INDUSTRY
IT DOESN'T MATTER THAT WE'RE SPENDING ALL OUR MONEY ON JAPANESE GOODS.
EVENTUALLY THEY'LL HAVE TO BRING THE MONEY BACK AND BUY OUR GOODS.
U.S. INDUSTRY
AND HERE THEY COME NOW.
U.S. INDUSTRY
HELLO AMERICANS! WE HAVE SPENT A LOT OF MONEY HERE TODAY.
U.S. INDUSTRY
EXCUSE, PLEASE, BUT YOU ARE STANDING ON OUR PROPERTY.
U.S. INDUSTRY
YOU CAN KEEP THE FLAG, SOMEPLACE ELSE.

While Japanese VCRs continued to gain popularity in the 1980s, new trends were changing the color television industry. The decline of U.S. companies continued, until Zenith was left as the only American firm building televisions. By the end of the decade, Zenith controlled only 12 percent of the U.S. market. However, 60 percent of all color televisions sold in the United States were manufactured within the country. Two European firms, Philips and Thomson, nudged aside Japanese competition to capture almost 40 percent of the American market. Moreover, Philips and Thomson employed nearly half the American work force in the color television industry and conducted most of their research and development in the United States.

Meanwhile, Zenith produced in Mexico 60 percent of the televisions it made for the United States. By 1990, twice as many color sets were coming into the United States from Mexico than from Japan, Taiwan, and South Korea combined. Whether Japanese, American, or European, every major producer of televisions for the U.S. market had factories in Mexico.

As a global approach to manufacturing gained acceptance, the distinctions between "American-made" and "foreign export" became blurred. What was the national origin, for example, of a television set carrying a Sony brand label that was designed in Japan, manufactured to a large extent in the United States, and assembled in Mexico?

The government's role in tomorrow's technologies

As the 1990s move forward, the color television industry continues to serve as a barometer of economic change. The opening of another technological frontier -- high-definition television (HDTV) -- illustrates the increasingly global nature of the U.S. economy. HDTV promises much sharper pictures than conventional television. Researchers expect the new technology to extend beyond television and impact computers, telecommunications, and other high-tech fields. With so much at stake, the competition among Americans, Japanese, and Europeans has been fierce, and often with little regard for national borders. Philips and Thomson, for example, have joined the Sarnoff Research Laboratory of the United States to explore HDTV, while Japanese companies have linked up with Pittsburgh's Carnegie Mellon University.

But while scientific research knows no nationality, many government officials believe that HDTV offers substantial benefits for countries that master the new technology. Nations with the strongest base of scientific and engineering expertise will be in the best position to apply HDTV research to new products. With this in mind, the twelve members of the EC have invested over $1 billion in the development of HDTV. In Japan, the Japanese Broadcasting Corporation has spearheaded the research effort on HDTV.

Japanese industrial policy, however, may have led Japanese companies down the wrong path in developing HDTV. Japanese HDTV research has relied on analog transmission standards similar to those now used for television. Analog signals are transmitted through the air in a series of waves. While the Japanese staked their bets on analog standards, an American company, General Instruments, developed the first all-digital HDTV system. Digital technology, which is based on the binary code used by computers, represents the technology of the future. In effect, General

Instruments' breakthrough leapfrogged years of government-sponsored research in Japan.

The evolution of HDTV could signal a turning point for the Japanese economy. The system of government planning that helped make Japan's automobile and electronics companies world leaders has proved less successful in gaining an edge in high-tech fields. In the early 1980s, for example, Japanese government and industry joined forces in the "fifth-generation" computer project. The project, however, could not keep pace with the rapid advances generated by small computer companies. In other areas, especially banking, insurance, and other financial services, Japan's economic planning bureaucracy has been slow to adapt to new trends.

Overall, the Japanese economy in recent years has shown signs of slowing down. Japanese companies in 1992 suffered their third consecutive year of declining earnings. Japan's industrial production is expected to decline again in 1993. Big firms, such as Nissan and JVC, have laid off thousands of workers for the first time since World War II. But even while Japan undergoes a recession, its trade surplus with the United States is expected to grow. In 1991, Japan's exports to the United States totaled $45 billion more than its imports. The gap will likely widen in 1993 as Japanese imports of American goods drop.

The recent setbacks of the Japanese economy have raised questions for Americans about the lessons to be learned from Japanese industrial policy. Like Japan, the United States has made costly mistakes in economic planning. In the late 1970s, for example, the government's synthetic fuels project had little impact on the direction of the energy industry. There have also been success stories. In 1987, a government-industry partnership was formed that helped advance the research efforts of U.S. computer chip makers. Sematech, as the project was called, was funded equally by government and private industry. As with other examples of government-industry cooperation during the Cold War, national security was the chief concern underlying the Sematech and synthetic fuels projects.

HDTV is another area where government involvement has been discussed. A number of American business leaders have argued that the concept of national security should include economic competitiveness. They have pushed for the United States to at least match the support for HDTV research offered by the Japanese and European governments, warning that the United States cannot afford to miss out on a critical technology of the future. Some researchers, however, fear that the involvement of the government will favor big corporations and stifle initiative. They point out that General Instruments' breakthrough was achieved without government aid.

Other observers note that the competition for HDTV also involves the manufacturing process. Companies producing HDTV products would create high-paying jobs for Americans. Moreover, the overall U.S. economy would be strengthened if the management of HDTV production were in American hands. To make sure that jobs in the HDTV industry are located in the United States, experts say, our country will have to offer a skilled labor force and a talented pool of industrial managers.

HDTV is expected to begin winning over large numbers of American consumers in the mid-1990s. By that time, many of the uncertainties surrounding HDTV today — the competition in research and development, the location of manufacturing jobs, and the role of the U.S. government — will have been resolved. Between now and then, this latest innovation in the color television industry is sure to have a significant impact on the future of the U.S. economy.

Part II: How U.S. Trade Policy Affects Us

In the early 1970s, the garment factories in El Paso, Texas employed more than 15,000 workers. The plants turned out men's work clothes for well-known brands such as Levi Strauss and Farah. Twenty years later, slightly more than 5,000 jobs remain in El Paso's garment industry. Of the big companies, only Levi Strauss continues to be a major employer in the area. Competing firms have moved their operations to Mexico, Costa Rica, and other countries with lower wage scales.

Levi Strauss has equipped its El Paso plants to adjust quickly to changes in fashion. The factories now produce higher priced clothing, such as Levi's Dockers. Garment industry workers have called on the local government to provide incentives to encourage other companies to invest in new technology, training, and market research. They also want the government to strengthen efforts to close down sweatshops that pay workers less than minimum wage. Business managers, however, have generally opposed a larger role for the government. They contend that the competition of the global marketplace forces them to cut their costs, often by moving their basic manufacturing operations to low-wage countries. They see the relocation of factories from El Paso to Mexico as necessary to ensure that their firms can continue to employ American designers, marketing specialists, and other well-paid professionals, and satisfy the demands of American consumers.

What has happened in El Paso is happening throughout the United States, and throughout the world. As the level of trade has boomed over the last forty-five years, the U.S. economy has increasingly been caught up in the twists and turns of the global economy. A growing portion of American jobs are now tied to trade, and trends point to a continued increase. For American consumers, the growth in trade has given them a wider range of products to buy. The increased competition has forced producers to improve quality and hold down prices. For American industry, the upsurge in trade has also proven beneficial. New markets have opened up for American companies. At the same time, however, other firms have not been able to keep up with the pace of change. As in the case of color television, the pressures of the global economy have driven some companies out of business. Others, such as the clothing manufacturers once located in El Paso, have moved jobs abroad.

The global economic system: Made in the U.S.A.

In many respects, the international economic system of today was the creation of U.S. policymakers. At the close of World War II, George Kennan, the diplomat who first laid out the U.S. strategy for containing the Soviet Union, maintained that there were five centers of industrial and military power in the world: the United States, the Soviet Union, Great Britain, Germany and central Europe, and Japan. To stop Soviet expansion, Kennan believed that the United States needed to ensure that the other three powers were pro-American and economically strong.

President Truman and his successors followed Kennan's recommendations. The United States encouraged the trading partnerships that developed in Western Europe and East Asia. In 1957, West Germany and France put aside their history of conflict to jointly take the lead in creating the six-nation European Economic Community. The trading bloc (known today as the European Community, or EC) eliminated many restrictions on the movement of people, goods, services, and capital among member nations. The EC today contains twelve countries, which together represent the largest economy in the world. In recent years, EC states have moved toward closer cooperation and have drawn up plans to accept additional members.

Japan has been the hub of economic activity in East Asia. As the Japanese economy took off after World War II, it developed close economic ties with other important U.S. allies in the region. The success of East Asia's "four tigers" — South Korea, Taiwan, Hong Kong, and Singapore — was part of a larger U.S. effort to strengthen the countries that were on the front line of the struggle against communism. At the beginning of the Cold War, however, few U.S. leaders imagined that these countries would someday offer competition to U.S. industries. Japan, for example, is now ahead of the United States in per capita **Gross Domestic Product (GDP)**.

During their economic recoveries, the countries of the EC and East Asia relied on fairly high tariffs to protect their key industries, much as the United

U.S. Trading Partners (1991)

*NICs: Newly industrialized countries, such as South Korea and Taiwan

From the Office of Technology Assessment, 1992, based on official statistics of the U.S. Department of Commerce.

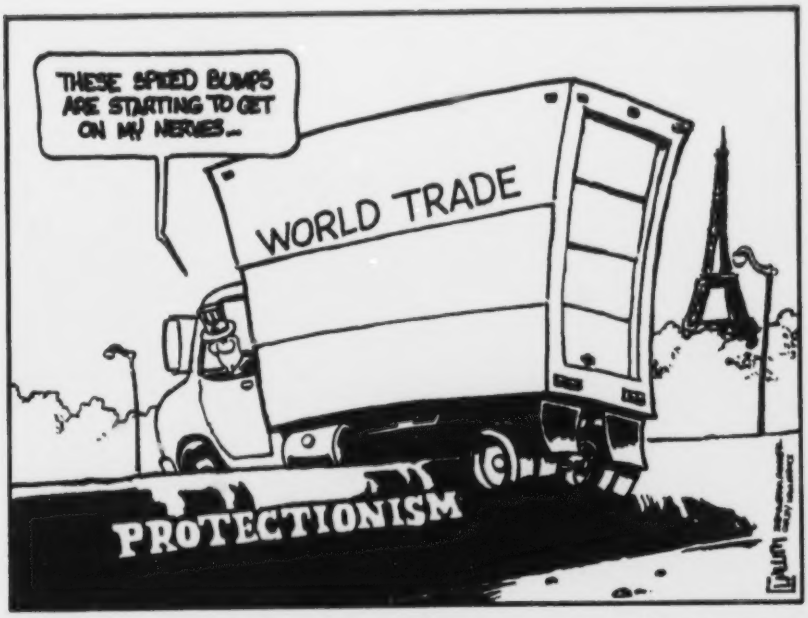
States had done from the Civil War to World War II. Meanwhile, the United States acted as the world's leading advocate of free trade. In promoting free trade, the United States stepped into a role that Britain had played for more than a century. And like the British, Americans succeeded in spreading many of their tastes and standards around the world. Fast food and credit cards, for example, found their way into almost every country, and the U.S. dollar served as the accepted currency of international trade.

The United States today still occupies a position of leadership in the world economy, but many Americans believe that their country is losing its competitive edge. Part of the decline was inevitable. Western Europe and Japan were bound to catch up with the United States after rebuilding from World War II. Economists, however, also detect deeper problems in the U.S. economic system. Just as the Soviet Union's economic system failed to adapt to new conditions, some economists fear that the United States could fall behind competitors in Western Europe and East Asia. Other economists are more optimistic. In their view, the United States' traditional openness to change will help American companies adjust to new economic trends. According to them, the 1980s was a pivotal decade, when American firms strengthened their competitive position and U.S. exports began expanding.

The current debate about the future of the U.S. economy has left its imprint on the issue of U.S. trade policy. Two major developments in trade policy — the signing of the North American Free Trade Agreement (NAFTA) by the leaders of the United States, Canada, and Mexico, and a new round of negotiations of the General Agreement on Tariffs and Trade (GATT) — promise to shape the direction of the U.S. economy for decades.

NAFTA would gradually create a single economic market stretching from the Arctic to the Yucatan Peninsula of Mexico. Like the EC, NAFTA will increase trade among the three countries by removing barriers to the movement of goods, services, and capital. Canada has long been our country's leading trade partner, while Mexico is number three. U.S. policymakers hope that the formation of a North American trading bloc will give the United States leverage in pressing countries in East Asia and the EC to lower their trade barriers.

The latest round of negotiations of the GATT, which began in 1986, has focused on expanding the



agreement to include agriculture and services, such as insurance and banking. The agreement would also require the 108 countries that have signed the GATT to lower tariffs and respect copyright laws on computer software, music, and other intellectual property.

GATT has been most successful in reducing import tariffs around the world. U.S. negotiators hope to see greater progress on the removal of **non-tariff barriers** to trade. Some non-tariff barriers are fair. Virtually every country, for example, regulates trade to protect the health and safety of its citizens. In some cases, however, these rules are crafted to discriminate against exports. In other instances, as American television manufacturers complained in the 1970s, local business practices prevent foreign products from reaching consumers. Governments often reinforce non-tariff barriers by favoring local companies in their purchasing decisions.

Both NAFTA and GATT must be approved by Congress. Debate over the agreements, and U.S. trade policy in general, revolves around complex efforts to assess the overall performance of the U.S. economy. To understand the human impact, however, we must consider the effect of U.S. trade policy on individual Americans. In the following pages, you will read about how trade policy relates to the lives of four people. Although the characters are not real, their hopes and concerns typify attitudes found throughout the country.

Profile #1 – Judy

Judy lives in a New England city with a long industrial history. Like many people in her neighborhood, she works in a jewelry factory assembling earrings and necklaces. She is a high school graduate, but with three children to raise she has not found the time to go on for further education. Along with many of her co-workers, Judy is worried about the future of her job.

Judy, now in her mid-40s, has worked in the same factory for twelve years. During that time, her salary has barely kept up with inflation. By 1992, she was making $6.25 an hour. Judy's employer has offered a health plan, but since the late 1980s benefits have been steadily reduced. Although Judy would like to find a better job, she considers herself lucky to be working. There have been a number of layoffs in her factory, especially after the lull that usually follows the Christmas season. Two years ago, a nearby jewelry factory closed down when manufacturing operations were moved to Malaysia.

Increasingly, Judy has come to understand that the future of her job is closely tied to the global economy. Browsing through her city's shopping malls, she has come to recognize that her factory is competing against low-wage countries in Latin America and Asia. For Judy, free trade represents a threat. She realizes that some American businesses will benefit from more open markets, but feels that American workers have little to gain.

The trends of the past decade indicate that Judy's concerns are justified. From 1982 to 1990, a time of steady economic growth and expanding trade, wages for working people in the United States fell 1.5 percent, while the salaries of managers jumped 8.7 percent. The seventy million American workers who, like Judy, are classified as unskilled have found themselves in competition for jobs with workers in developing countries. Since 1984, for example, American Telephone and Telegraph eliminated 21,000 manufacturing jobs in the United States while

hiring 8,000 engineers, designers, and others with high levels of education.

If NAFTA is approved, workers such as Judy will face greater competition from Mexico. Wages in Mexico average one-sixth of U.S. levels. Moreover, regulations safeguarding the environment and working conditions are weaker in Mexico. In recent years, hundreds of companies from the United States and East Asia have set up plants in Mexico to take advantage of the country's cheap labor costs and easy access to the American market. The transfer of goods within the same company now accounts for over one-third of U.S.-Mexican trade. Many of the factories are known as ***maquiladoras***, assembly plants that put together goods for shipment across the border. Although the average Mexican has only a sixth-grade education, worker productivity in some *maquiladoras* is equal to American standards.

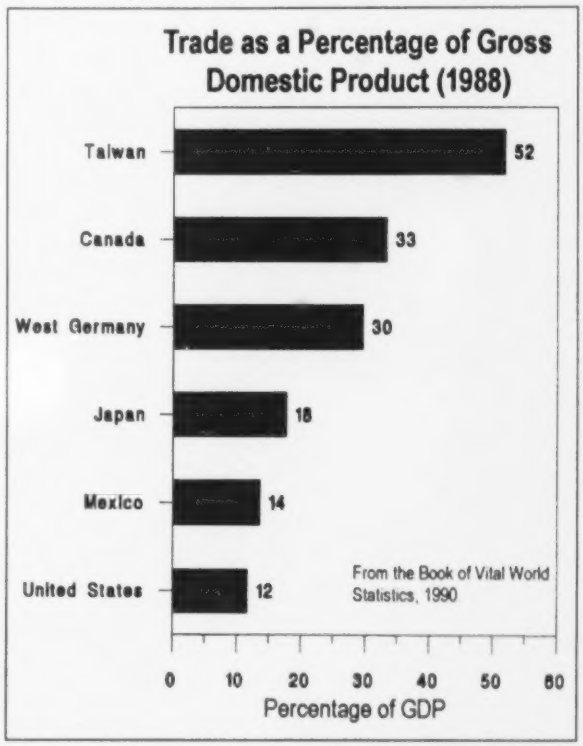
Canada's experience since a U.S.-Canadian free trade pact went into effect in 1989 should also be a cause of concern for Judy. In comparison to the United States, labor unions have been stronger in Canada and employers have paid more in taxes for unemployment insurance. As a result, free trade put some Canadian companies at a competitive disadvantage. From 1989 to 1992, the output of Canada's factories fell 11.4 percent, compared to a 1.6 percent gain in the United States. Moreover, employment in Canadian manufacturing fell by 15 percent.

Judy hopes that the government will help workers adjust to the economic shake-up that accompanies changing trade patterns. She believes training workers in new job skills would be most helpful. The government, she feels, should also encourage companies to invest more in the education of their workers. Firms in Germany, Japan, and other developed nations are well ahead of the United States in worker training. Furthermore, students in many of these countries finish high school by entering advanced apprenticeship programs. Judy would like to see such opportunities for her children.

Profile #2 — Al

Al lives in a small Midwestern city that has been dominated by the automobile industry for most of this century. When Al was growing up, he was surrounded by family members and neighbors who worked either in the General Motors (GM) factory just outside his town or in one of the smaller plants that supplied parts to the auto industry. Al always figured that he would end up working in the auto industry himself. In college, he earned an engineering degree and after graduation went to work for the local GM plant. After fifteen years with GM, Al and two of his fellow engineers opened up their own factory to produce gaskets for the engines of GM cars. Now in his late 50s, Al employs more than 100 people and supplies gaskets to GM, Ford, and Toyota factories in the United States and Mexico. His daughter, who just graduated with a master's degree in business administration, hopes to increase the sales of her father's company.

When Al opened his plant, American companies were still the unquestioned leaders of the auto industry. Most of his business, as well as his competition, could be found within a few hundred miles of his home. Today, Al faces a business environment that is more competitive and more global. Companies in Japan and South Korea have entered the U.S. market with greater force in the last two decades. To meet the changing needs of his customers, Al has hired additional engineers to design new gaskets. On the factory floor, Al has invested heavily in new equipment to increase productivity and respond to design changes.



Al has streamlined his manufacturing operation to the point where he produces gaskets only to meet specific orders. This has allowed him to trim his manufacturing costs, and to avoid maintenance expenses for overstocked warehouses. With these cost-cutting measures and an emphasis on customer service, Al feels that he can stay ahead of foreign competitors.

Al knows his competition in East Asia also continues to raise productivity levels. From 1973 to 1989, the productivity of Japanese workers increased by 5.5 percent annually, compared to a 2.6 percent yearly rise in the United States. In some areas of manufacturing, the productivity of Japanese workers has surpassed American levels.

Production workers in Al's factory earn $12 an hour, a wage that is typical in the auto parts industry. Al also provides his full-time workers with health care. In Mexico, workers performing the same jobs earn about $2 an hour. That gap in wages has Al worried about NAFTA. A number of companies that compete with Al already have plants in Mexico. With the approval of NAFTA, others will surely follow.

There is also a positive side to NAFTA for Al. Mexico is the fastest-growing automobile market in the world. Under NAFTA, Mexico's tariffs on cars and light trucks would be cut in half immediately. Within five years, tariffs on most auto parts coming into Mexico would be eliminated. Al has seen his exports to Mexico triple in the last six years. He is part of a trade boom that accounted for $5.7 billion worth of U.S. automotive exports to Mexico in 1991. Some experts believe that NAFTA presents more of a threat to East Asian companies than to American firms. These companies could be squeezed out of the American market as Mexico becomes more competitive.

American manufacturers such as Al have reason to be optimistic about broader trends in global trade. From 1989 to 1992, U.S. exports have risen 23 percent. About half of U.S. economic growth from 1987 to 1992 was tied to exports. Some of the increase can be attributed to the fact that the value of the U.S. dollar has fallen in relation to currencies in Western Europe and Japan, thus lowering the price of U.S. exports. Economists, however, also note that global competition has forced American companies to improve quality and hold down costs. Even in well-established U.S. export industries — such as agriculture, electrical machinery, aviation, and computer equipment — continued innovation has boosted American competitiveness.

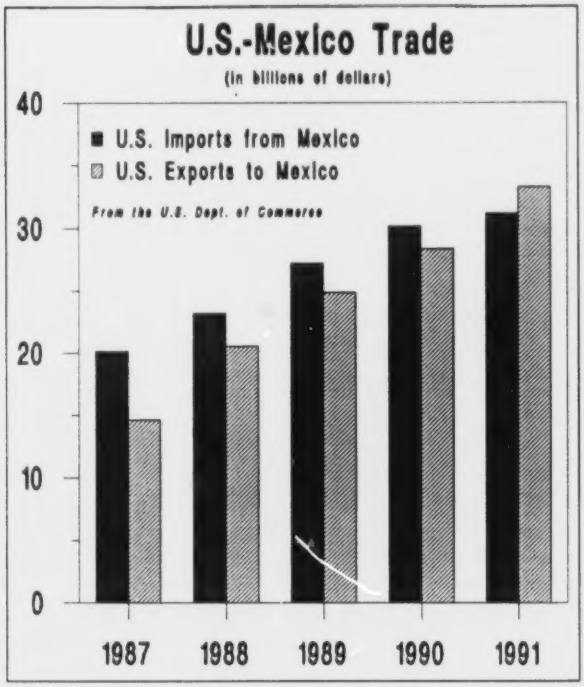
Profile #3 — Vicky

Vicky lives in Atlanta, a city that has become her home since she found a job there as a sales representative for a telecommunications firm. Vicky, who will soon be 30 years old, has had a strong interest in international business since high school. As a senior-year research project, she interviewed business people in her home town who were involved in foreign trade. In college, Vicky spent a year in Taiwan as a foreign exchange student. Vicky's experience abroad led her to change her major to international marketing.

Since graduating from college, Vicky has worked for three different companies. She was especially attracted to the growing field of telecommunications and the city of Atlanta, which has transformed itself into an important center of international business. Vicky is part of a division that markets cellular telephones to businesses. Her division has increasingly found customers in the Caribbean and Latin America, where poor telephone service makes cellular communications an appealing option. The Mexican market, however, was more difficult to enter because a state-run company, *Teléfonos de México*, controlled the communications business. Since the government sold the company to private investors in 1990, the market has slowly begun to open up.

Under NAFTA, the barriers that have shielded Mexico's telecommunications industry would be further lowered. Vicky's company is ready to take advantage of new trade opportunities. In Mexico City, for example, thousands of Mexican business people already rely on cellular telephones as an alternative to *Teléfonos de México*. Just as in the United States, the market is certain to expand. By emphasizing prompt installation and repair services, as well as low-cost leasing arrangements, Vicky's company hopes to capture a sizable share of the growing Mexican market.

Vicky would be a key part of her company's plans to open up an office in Mexico City or Guadalajara. Not only does she speak Spanish and have relatives



in northern Mexico, but she has gained experience in international business through her earlier jobs. Under NAFTA, Vicky and other business professionals would face fewer restrictions to pursuing opportunities outside of their home country.

The trade plans of Vicky's company extend beyond the Western Hemisphere. Assuming trade barriers fall worldwide, American firms that provide business services such as banking, insurance, advertising, and telecommunications are expected to expand rapidly. The ethnic and cultural diversity of the United States, along with the worldwide acceptance of American business standards, should give American service companies a competitive advantage. To prepare for such opportunities, Vicky is now taking classes to learn Chinese.

Economists note that the United States has steadily shifted away from manufacturing bulky goods and moved toward a high-technology, information-oriented economy. Rather than building steel pipes, they say, American workers are more likely to have an edge in developing computer software. When services are taken into account, the U.S. trade picture changes considerably. In 1991, for example, the United States imported $73 billion more in merchandise than it exported. At the same time, the United States enjoyed a $45 billion trade surplus in services. More open trade is expected to give an added boost to the service sector.

Profile #4 — Rick

Rick is a high school junior living in Southern California, not far from the U.S.-Mexican border. Like other high school students, Rick has a practical understanding of what international trade means in his daily life. The shoes he wears were made in India, his jacket was produced in Mexico, the compact-disc player he owns is from South Korea, and the car he would like to buy is manufactured in Germany. Thanks to international trade, Rick can choose from a world of goods at reasonable prices. Compact-disc players, for example, have actually dropped in price in recent years.

In the next few months, Rick has to make some important decisions that go well beyond his life as a consumer. Rick's uncle owns a small fleet of refrigerated trucks that ships fruits and vegetables in California, Arizona, and Nevada. He has invited Rick to join his company after he graduates from high school. After working as a truck driver for a few years, Rick could expect to play a part in the business operations of the company and may eventually become a partner in the firm. At the same time, Rick is thinking about applying to the University of California at San Diego. Rick has done well in his science classes — this year he's taking chemistry — and he knows that the university has a strong program in biotechnology. Going to college, however, would mean that Rick would have to hold a part-time job and borrow money to pay for tuition and living expenses.

The direction of U.S. trade policy will have a big impact on Rick's future. Increasingly, Southern California is being drawn into the Pacific economy that features the rapidly advancing countries of East Asia and the west coast of North America. U.S.-Mexican trade is also reshaping the economics of Rick's home region. According to economists, more open trade will result in greater overall growth for Southern California. The country as a whole will benefit in the long run, they say. At the same time, however, economists note that the economic pain caused by changing trade patterns will fall hardest on a few specific industries. For Americans employed in those areas of the economy, the

economic disruption that comes with more open trade will far outweigh the benefits.

In the case of Rick's city and other border areas, economists predict that NAFTA would make companies more likely to locate manufacturing plants in northern Mexico. In turn, American firms near the border would benefit from increased demand for business services and manufacturing equipment. Three years after NAFTA takes effect, for example, Rick's uncle would be able to make deliveries and pick up cargo in Mexican border states. Although Mexican truckers would gain the same rights in U.S. border states, Rick's uncle believes that his company would enjoy a competitive advantage over Mexican firms. Increased trade with Mexico, however, would add to the competitive pressures facing American workers. Labor leaders, for example, point out that factory wages in American cities near the Mexican border are lower than elsewhere in the United States.

In addition to affecting Rick's personal plans, trade policy will shape the future of the region along the U.S.-Mexican border. Rick has visited Mexico three times. Last summer, he spent a week in Tijuana with the relatives of a classmate. Tijuana and other Mexican border cities have become a magnet for population growth in the last two decades. *Maquiladoras* have created more than half a million new jobs and fueled a construction boom. From 1988 to 1991, trade between California and Mexico increased 60 percent to more than $10 billion a year.

Along with growth, however, have come problems. Some American companies, for example, moved to Mexico to avoid U.S. standards on environmental protection and worker safety. Not far from the neighborhood in Tijuana where Rick stayed there is an industrial park that houses a number of factories. Neighbors complain that chemical fumes from the plants pollute the air and that untreated waste water is allowed to flow into a drainage ditch that empties into the Pacific Ocean.

NAFTA supporters maintain that the economic growth generated by the agreement will give Mexico the resources to raise the country's environmental standards. They also point out that NAFTA encourages Mexico to adopt stricter regulations. Environmentalists, however, are worried that more open trade with Mexico will force American manufacturers to cut corners on environmental protection and worker safety to compete with Mexican factories. In addition, they have criticized U.S. corporations which have neglected environmental standards at their manufacturing operations in poor, developing countries.

NAFTA has raised concern about other issues as well. For all of our country's problems, the United States offers its citizens much better education and health care than Mexico provides. Americans enjoy social service programs, such as social security, unemployment insurance, and student loans, that have no comparable equivalent in Mexico. Economists, however, predict that over time NAFTA will smooth out some of the differences in the U.S., Mexican, and Canadian economic systems. The Canadian government, for example, cut unemployment insurance in 1990 to levels that are closer to American standards. While NAFTA supporters expect the agreement to gradually lift Mexico to the standards of its northern neighbors, critics fear that the United States and Canada will become more like Mexico.

Illegal immigration is also part of the debate over NAFTA. More than 200,000 illegal immigrants, mostly from Mexico, are expected to settle in the United States in 1992. Rick's home, Southern California, feels their impact more than any other area of the country. According to its supporters, NAFTA will help reduce illegal immigration in the long run by strengthening Mexico's economy and bridging the gulf between U.S. and Mexican wages. In the short term, however, NAFTA could pull more Mexicans northward as the border economy heats up.

Back in Rick's high school, the issues surrounding U.S. trade policy are receiving increasing attention. The details are often complex. The language of NAFTA, GATT, and other agreements on trade relations seems virtually incomprehensible to Rick and his classmates. And yet there are vital questions — about jobs, education, and the direction of the overall U.S. economy — that demand the involvement of all Americans. As Rick has come to learn, trade policy will have a very real impact on our lives.

Glossary

Trade deficit: An excess of imports over exports. The United States, for example, has a large trade deficit with Japan because the value of Japanese products, especially cars, bought by Americans is greater than the value of American products bought by Japanese.

Technology transfers (patent licensing): The selling of ideas and information to companies which, in return, give the owners of the technology a small percentage of the sales on products that use the technology.

Free market system: An economic system in which the basic questions of what, for whom, and how to produce are decided by buyers and sellers. In a planned economy, such as the system of the old Soviet Union, most economic decisions are made by the government.

Industrial policy: The idea that government can and should steer economic development by promoting particular industries, such as high-technology areas, through regulatory policies, investment, tax incentives, and other government measures.

Tariffs: A tax placed on imports. Because high tariffs increase the price of imported products, they protect domestic producers from foreign competition. Japan, for example, has maintained very high tariffs on imported rice to protect its rice farmers.

General Agreement on Tariffs and Trade (GATT): Created in 1947 through the initiative of the United States and its leading trading partners to establish a general code for commercial policy among member states. In the first seven rounds of negotiations among its members, GATT reduced the average tariff on manufactured goods in developed countries from 47 percent to 5 percent. The ongoing Uruguay round of negotiations, begun in 1986, is aimed at liberalizing trade in four new areas: farm production, textiles, intellectual property, and services.

Import restrictions: Limits on the amount of a product that may be imported. Quotas, rule of origin requirements, anti-dumping and countervailing duties, and other restraints serve to restrict imports. Import restrictions are often imposed in response to sharp trade imbalances between trading partners.

Non-tariff barriers: Standards, regulations, and local business practices that impede imports. Although GATT has succeeded in lowering tariffs worldwide, non-tariff barriers have been more difficult to eliminate.

Gross Domestic Product (GDP): The total value of goods and services produced in a country during one year. Another indicator of economic output, Gross National Product, is also widely used by economists.

Trading bloc: An arrangement to promote trade among member countries by reducing tariffs, regulations, and other obstacles to the free movement of goods and services. The European Community (EC) is currently the world's largest trading bloc. NAFTA would create a still bigger trading bloc in North America.

Maquiladoras: Initiated by the Mexican government in 1965, the *maquila* program allowed foreign companies to assemble imported products tax-free, for immediate re-export, in factories along the Mexican-American border. These export factories have created more than half a million jobs in Mexico. The *maquiladoras*, however, have also increased pollution in northern Mexico.

Options in Brief

Option 1 — Promote Free Trade

Since the end of World War II, the United States and many of its chief trading partners have enjoyed unprecedented prosperity and economic growth. Underlying this era of progress have been the principles of free trade. More open trade has provided American consumers with better products at lower prices. Moreover, the growth of trade cemented alliances among the United States, Western Europe, and Japan during the Cold War against the Soviet Union. More than ever, the United States is in a position today to reap the benefits of the free trade. Our technological expertise has given us the lead in many promising industries of the future, including biotechnology, telecommunications, and computer software. If we look beyond our current economic difficulties, we will see that the United States is poised to re-emerge as the world's economic powerhouse. To back away now from our commitment to free trade would be a setback not only for the United States, but for the entire world.

Option 2 — Protect American Workers

For more than four decades, the United States has been the world's generous uncle. We opened our doors to imported goods while other countries shielded their industries behind high tariffs and impenetrable regulations. For a couple of decades after World War II, the United States perhaps could afford to play this role, but the days of the generous uncle have long since passed. The United States has lost the lead in automobiles, electronics, steel, and other vital industries. Our country has recorded big trade deficits for well over a decade. The time has come to fight back. U.S. trade policy must put the interests of American workers above the naive goal of free trade. Our economy cannot be strong without a healthy manufacturing sector, and our manufacturing sector cannot be healthy if the purchasing power of American workers is eroded. U.S. trade policy must focus on stemming the flow of jobs overseas and protecting our industries from unfair foreign competition. At home, we must invest in the skills of our workers through expanded government retraining programs.

Option 3 — Chart Our Economic Course

In the world of economics, victory goes to those who adapt to change. As a country, we have to redefine our conception of national security and recognize that our economic future lies at the core of U.S. interests. If the United States is to be a leader in the high-technology, information-oriented world of tomorrow, we must commit ourselves today to a plan for the future. Changes in the global economy demand a new relationship between government, industry, and universities. Just as governments in East Asia and Western Europe work as partners with business, so, too, should U.S. leaders from the public and private sectors work together to achieve national economic goals. To develop the technologies of tomorrow, the government must take an active role in identifying areas of promise, investing in research, and promoting exports. American companies in these industries should enjoy the same privileges as their counterparts in East Asia and Western Europe.

Option 1

PROMOTE FREE TRADE

Since the end of World War II, the United States and many of its chief trading partners have enjoyed unprecedented prosperity and economic growth. Underlying this era of progress have been the principles of free trade. After World War II, the United States took the lead in creating an international economic system that recognized the critical importance of free trade and the free market. We helped the countries of Western Europe and Japan get back on their feet because we understood that the economic health of our trading partners was vital to our own well-being. Although many barriers to trade remain, progress in lowering tariffs has produced results. World trade has soared, living standards have risen, and new technologies have emerged. More open trade has provided American consumers with better products at lower prices. Moreover, the growth of trade cemented alliances among the United States, Western Europe, and Japan during the Cold War against the Soviet Union. In a world based on free trade, both we and our allies will achieve rising levels of prosperity.

Now more than ever, the United States is in a position to reap the benefits of free trade. With the end of the Cold War, we can turn our attention to sharpening our economic competitiveness. Our technological expertise has given us the lead in many promising industries of the future, including biotechnology, telecommunications, and computer software. American ingenuity, without the heavy hand of government interference, continues to produce cutting-edge technology. In addition, the countries of the European Community (EC) and East Asia, as well as Canada and Mexico, are increasingly showing a commitment to free trade. If we look beyond our current economic difficulties, we will see that the United States is poised to re-emerge as the world's economic powerhouse. To back away now from our commitment to free trade would be a setback not only for the United States, but for the entire world. To impose government industrial policy in place of free-market competition would undermine the overall efficiency of our economy. With its cultural diversity, outstanding universities, and forward-looking industries, the United States can compete successfully with any country in the world.

What policies should we pursue?

- The United States should quickly accept the North American Free Trade Agreement (NAFTA) with Mexico and Canada.
- The United States should pressure other countries to lower barriers to free trade under the General Agreement on Tariffs and Trade (GATT).
- The United States should create a level playing field for companies that do business in more than one country by applying the same standards to all corporations and pressuring other countries to do the same.
- The United States should use foreign aid to reward poor, developing countries that follow free-trade policies.

How would Option 1 affect us?

Under Option 1, free trade is expected to increase economic growth in the long run. As markets open, however, there would be both winners and losers. Well-paying, highly specialized jobs would be created, while low-wage, low-skill manufacturing jobs would be shifted abroad. Those working in industries tied to exports would most likely benefit. Americans with high levels of education and a willingness to move to where new industries emerge would be the biggest winners. On the negative side, Americans with few skills and little education would be hurt by increased competition. Some of the jobs they hold would likely be transferred to low-wage countries in Latin America and Asia.

PROS

SUPPORTING ARGUMENTS

1. Increased trade will spur greater economic growth, improve the overall standard of living, and provide American consumers with better products.

2. By promoting free trade, the United States will also be promoting an international system in which nations will have an interest in maintaining peace, stability, and worldwide economic growth.

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3. NAFTA will raise the standard of living in Mexico, reduce the flow of illegal immigrants into the United States, and expand the Mexican market for American goods.

4. The free, open competition of the marketplace will sharpen the efficiency of American industry and encourage innovation.

CONS

OPPOSING ARGUMENTS

1. Under free trade, the laws of the marketplace will result in the transfer of millions of American manufacturing jobs abroad.

2. NAFTA will force American workers to compete head-to-head with Mexican workers, whose wages are one-sixth American wage levels.

3. Free trade will lead to a weakening of environmental standards and cutbacks in education and social services as the United States faces greater competition from poor, developing countries.

4. Blind pursuit of free trade will leave high-tech industries at a disadvantage in competing against government-supported companies in East Asia and the EC.

5. Abandoning government regulatory standards in the name of free trade will leave the United States vulnerable to more financial crises, such as the multi-billion dollar collapse of the savings-and-loan industry.

Option 2

PROTECT AMERICAN WORKERS

For more than four decades, the United States has been the world's generous uncle. We opened our doors to imported goods while other countries shielded their industries behind high tariffs and impenetrable regulations. We protected Western Europe and East Asia militarily while these allies grew rich and powerful. For a couple of decades after World War II, the United States perhaps could afford to play this role, but the days of the generous uncle have long since passed. Instead, we have to accept the realities of the global economic system rather than try to change them to fit our idealistic principles. In the real world, our economic competitors have largely ignored the principles of free trade. They have played on our concern about the Soviet Union to squeeze advantages from us and to avoid paying their fair share of defense costs. Meanwhile, the United States has lost the lead in automobiles, electronics, steel, and other vital industries. Our country has recorded big trade deficits for well over a decade. The time has come to fight back.

U.S. trade policy must put the interests of American workers above the naive goal of free trade. The facts are that the United States has lost 13 percent of its manufacturing jobs since 1980. These were jobs that allowed American workers to provide their families a decent standard of living and buy the cars, clothes, and computers that other Americans made. Our economy cannot be strong without a healthy manufacturing sector, and our manufacturing sector cannot be healthy if the purchasing power of American workers is eroded. More than any other group, workers have suffered from our country's misguided trade policy. Their flesh-and-blood concerns can no longer be neglected, regardless of what economic theories say. U.S. trade policy must focus on stemming the flow of jobs overseas and protecting our industries from unfair foreign competition. At home, we must invest in the skills of our workers through expanded government retraining programs. Let us not forget the men and women who built this country.

What policies should we pursue?

- The United States should reject the North American Free Trade Agreement (NAFTA) with Mexico and Canada.

- The United States should protect American manufacturing jobs by retaliating against countries that export to the United States while keeping American goods out of their own markets by erecting unfair trade barriers.

- The United States should substantially expand programs designed to retrain American workers and increase assistance to Americans left unemployed by changing trade patterns.

- The United States should use tax policy to discourage American companies from transferring manufacturing jobs abroad and to encourage foreign companies doing business in the United States to base their factories in this country.

How would Option 2 affect us?

Under Option 2, promoting the interests of American workers by restricting free trade is expected to change the direction of the U.S. economy. In the long run, the pace of economic growth would be slower, but average American workers would have a better chance of holding onto their jobs. Those likely to gain from Option 2 would be Americans working in traditional industries, such as automobiles and steel. Those without advanced skills would also benefit from government training programs. On the negative side, business managers would have fewer opportunities to cut manufacturing costs by moving jobs abroad. Some companies would lose export markets as a result. A decline in trade would also hurt Americans who work in leading export industries, such as agriculture, aviation, and business services.

PROS

SUPPORTING ARGUMENTS

1. Taking a tough stance on trade issues will force other countries to either play fair or drop out of the competition for the American market.

2. By taking control over the pace of change, the United States will head off the economic chaos and the widening gap between rich and poor that threatens to tear our society apart.

&

3. By investing in the retraining of American workers, the United States will strengthen the overall competitiveness of the U.S. economy.

4. Ensuring a healthy manufacturing base will protect the purchasing power of American workers and contribute to the overall strength of the economy.

CONS

OPPOSING ARGUMENTS

1. Raising U.S. trade barriers will set off a trade war that will reduce exports worldwide and send the global economy into a depression.

2. Investing in retraining programs for workers while neglecting research and development may help today's industries, but will do little to prepare our country for the high-tech fields of tomorrow.

3. Erecting barriers against outside competition, the U.S. economy will grow inefficient and backward — the same fate that destroyed the Soviet economy.

4. Taking a hostile stance toward our trade partners will create an atmosphere of international tension similar to the period of the 1930s.

5. Spending more government money to train workers in skills that they may never use will add to the budget deficit while doing little to improve our economic competitiveness.

Option 3

Chart Our Economic Course

In the world of economics, victory goes to those who adapt to change. For most of our country's history, the United States has stayed ahead of the forces of change. In the last couple of decades, however, change has overtaken many of our country's former economic front-runners. Mainstays of American industry, such as automobile companies, have lost their lead, while new industries have been snatched up by our competitors. As a country, we have to redefine our conception of national security and recognize that our economic future lies at the core of U.S. interests. The direction of the global economy is clear. If the United States is to be a leader in the high-technology, information-oriented world of tomorrow, we must commit ourselves today to a plan for the future.

Changes in the global economy demand a new relationship between government, industry, and universities. Just as governments in East Asia and Western Europe work as partners with business, so, too, should U.S. leaders from the public and private sectors work together to achieve national economic goals. To develop the technologies of tomorrow, the government must take an active role in identifying areas of promise, investing in research, and promoting exports. Not every industry can be saved. In low-skill, labor-intensive areas of manufacturing, such as cheap clothing and low-priced electronics, the United States can no longer compete. That means, however, that we must focus our resources all the more on areas in which we hold an advantage. American companies in these industries should enjoy the same privileges as their counterparts in East Asia and Western Europe. U.S. trade policy should shield these firms from unfair competition. By concentrating on the long term, we can create an economy for tomorrow that will put the United States on the cutting edge of technology and restore the health of American industries.

What policies should we pursue?

- The United States should accept the North American Free Trade Agreement (NAFTA), provided that Mexico agrees to raise its health, safety, and environmental standards to U.S. levels over the next decade.

- The United States should protect critical industries by restricting the foreign licensing of technologies developed in the United States and ensuring that foreign companies are not allowed to capture the American market.

- The United States should substantially increase its investment in the research and development of promising industries, partially by shifting research funds from the defense budget to commercial areas.

- The United States should provide tax breaks and export assistance to companies that create jobs in high-tech fields.

How would Option 3 affect us?

Under Option 3, the pursuit of a more systematic national industrial policy is expected to make the American economy more like that of Japan and the countries of the EC. Government planning would likely result in major shifts in the overall economy. For Americans with a scientific or engineering background, there would be more jobs in research and development. Americans working in industries that hold promise for the future, such as biotechnology and telecommunications, would also benefit from government assistance. On the negative side, Americans working in companies that do not receive government help would be at a competitive disadvantage and may lose their jobs. Low-skilled workers in uncompetitive industries could also face dim prospects for the future.

PROS

SUPPORTING ARGUMENTS

1. Targeting critical industries for government assistance will ensure that the United States remains competitive in areas that are vital to our national security.

2. Developing a strong partnership between government and industry will give the United States added leverage in international trade negotiations.

&

3. Combining the resources of government and industry will put the United States in the same league as the EC and Japan in the competition for developing important new technologies.

4. Expanding research and development will allow the United States to employ the talents of scientists and engineers who have lost their jobs due to recent cuts in defense.

CONS

OPPOSING ARGUMENTS

1. As the collapse of the Soviet Union illustrates, government direction of the economy results in multi-billion dollar mistakes, bureaucratic red tape, and corruption.

2. Allowing the government to pick winners and losers in our rapidly changing economy will favor big corporations with influence in Washington and leave small, innovative companies at a disadvantage.

3. Focusing on national priorities is out of step in an age when big multinational corporations operate in many countries.

4. Placing research and development above the needs of workers will do little to improve the lives of the majority of Americans.

5. Government spending on expensive programs to develop unproven technologies will add to the budget deficit and produce few returns.

Five-Day Lesson Plan

Homework: Before beginning the unit, students should read Part I of the background readings, "A TV Viewer's Guide to the American Economy," and complete "Study Guide – Part I."

DAY ONE

The U.S. economy in transition

Objective: This discussion focuses on the turning points in the evolution of the television industry and draws attention to broader changes in the overall U.S. economy.

1. Ask students why the history of the television industry serves as a microcosm of the changes that have taken place in the global economy since the end of World War II. What other industries have undergone similar shifts?

2. Divide the class into six groups. Ask each group to carefully review one the six sections of the background article ("The television boom," "Japan rebuilds," "Emerging competition," "Japan takes the lead," "Global strategies," or "The government's role in tomorrow's technologies"). Note that each section explores a key turning point in the evolution of the television industry. Instruct group members to prepare a brief oral report on the importance of the stage they have reviewed. Emphasize that the reports should identify the decisions and strategies that shaped the future direction of the industry. Call on group spokespersons to present their conclusions to the entire class.

3. Ask students to compare U.S. trade and economic policies with those of Japan and Western Europe. How is the American system different? What are some of the reasons the Japanese economy is now experiencing problems? How have our country's foreign policy goals during the Cold War influenced the direction of U.S. trade and economic policy?

Homework: Students should read Part II of the background readings, "How U.S. Trade Policy Affects Us" and complete "Study Guide – Part II."

DAY TWO

Role playing the three options: organization and preparation

Objective: This two-day simulation will familiarize students with leading issues that frame the debate on U.S. trade policy.

1. Inform students that they will participate in a simulation using the options and the background readings. Students will serve either as advocates of an option, as members of a Congressional committee, or as citizen lobbyists.

   a. For the option advocates, form three groups of three to four students. Assign an option to each group. Distribute "Presenting Your Option." Note that the option groups will be called upon in Day Three to present the case for their assigned option to the committee. (As an extra challenge, ask the groups to design a poster illustrating the best case for their option.)

   b. For the Congressional committee, appoint five to ten students to serve as members of the Joint Committee of Congress on Economics. Distribute "U.S. Trade Policy." (As an extra challenge, call on committee members to weigh the options as representatives of specific states or Congressional districts.) Remind committee members that they are expected to turn in their cross-examination questions at the end of the simulation (see "U.S. Trade Policy").

c. For the remainder of the class, assign students to play the role of one of the four individuals (Judy, Al, Vicky, or Rick) presented in Part II of the background readings. Distribute "Making Your Voice Heard." In the second half of Day Two, citizen lobbyists should present their assessment of the options to members of the joint committee. Remind citizen lobbyists that they are expected to turn in their essays at the end of the simulation (see "Making Your Voice Heard").

Homework: Students should complete preparations for the simulation.

DAY THREE

Role playing the three options: debate and discussion

1. Organize the room so that the three option groups face a row of desks reserved for the Joint Committee of Congress on Economics. (In smaller classes, other teachers or administrators may be invited to serve as members of the committee.) The citizen lobbyists should be seated behind the committee members. Distribute "Evaluation Form" to the joint committee members. Explain that the simulation will begin with three-to-five minute presentations by the spokespersons for the option groups. Encourage spokespersons to speak clearly and convincingly.

2. Following the presentations, invite members of the joint committee to ask cross-examination questions. Make sure that each committee member has an opportunity to ask at least one question. The questions should be equally distributed among all three option groups. If time permits, allow citizen lobbyists to ask questions as well. During the question period, allow any option group member to respond. (As an alternative approach, permit questions after each option is presented.)

3. Instruct members of the subcommittee to fill out the first part of "Evaluation Form" during the course of the period. The second part of the worksheet should be completed as homework.

DAY FOUR

Assessing policy implications

Objective: This discussion activity will help students evaluate the overall economic and social impact of the options.

1. Call on members of the joint committee to share their evaluations of the option groups. Which arguments were most convincing? Which beliefs were most appealing? To what extent did the options address the concerns of Americans?

2. Explain that U.S. trade policy can be viewed from a variety of different perspectives. Economists, for example, are inclined to assess the impact of the options on different sectors of the U.S. economy (e.g., the automotive industry, agriculture, financial services, etc.). Local government officials are more likely to consider the ramifications of the options on their state or region. Most important, Americans would want to know how the options would affect them personally, whether they be a factory worker like Judy or a factory owner like Al.

3. Call on students to offer their assessments of the options from a number of different perspectives. For example, which option would be most attractive to farmers? How would attitudes in the Midwest toward the options differ from those in the Southeast? Ask the class to reflect on what Judy, Al, Vicky, and Rick would have to say? Finally, how would the options be received locally? What factors would account for the outlook of the local community?

4. Ask students to consider the relationship between U.S. trade policy and foreign policy goals. For example, should the United States impose trade restrictions on countries that violate human rights, such as China? Should countries that pursue free-market policies be given trade privileges?

Homework: Students should read each of the three options, then fill out "Focusing Your Thoughts," and complete "Your Option Four."

DAY FIVE

Beyond the options

Objective: This activity will allow students to explore the implications of the policy options they have developed.

1. Review the beliefs in "Focusing Your Thoughts," noting the relationship between beliefs and policy options. Call on students to explain how their beliefs guided their responses in "Your Option Four."

2. Inform students that they will be taking part in a survey on the attitudes of high school students regarding the direction of U.S. trade and economic policy. Explain that their responses will be tabulated along with those of other students using *U.S. Trade Policy: Competing in a Global Economy.* Distribute "Student Survey" and ask students to complete the form individually. After students finish the assignment, call on them to indicate their responses with a show of hands. Record student responses on "Classroom Survey." (To participate in a nationwide poll of student attitudes, send the classroom survey to the Choices Education Project by April 30, 1993. Respondents will receive a tabulation of nationwide results by early June.)

3. Call on students to analyze the views of the class. Do the results reflect the general outlook of the local community? How did student attitudes change as a result of the unit? How would the responses of the class likely differ from a survey of Americans nationwide? What factors (e.g., local economic conditions, age, region, class, etc.) would account for the differences?

4. *Extra Challenge:* As homework, instruct students to write a letter to a member of Congress or President Clinton on their opinion of the North American Free Trade Agreement (NAFTA). The first part of the letter should analyze the results of the classroom survey and outline the leading concerns of the class. In the second part, students should summarize their responses to "Your Option Four" and explain their position on NAFTA.

Name: _____

Study Guide – Part I

A TV Viewer's Guide to the American Economy

1. What factors gave the United States an early lead in the television industry?

2. How did the goals of U.S. foreign policy help promote Japan's economic recovery after World War II?

3. How did the Japanese government assist the development of the color television industry in Japan?

4. What factors explain the past differences between the tariff policies of the United States and Japan on television imports?

5. How is it possible that Sony and Philips televisions are in some respects more "American" than Zenith televisions?

6. Why do some experts believe that the Japanese economic system may face problems in the competition for high-tech industries, such as HDTV?

Center for Foreign Policy Development *Permission granted for duplication*

Name: _____

Study Guide – Part II

How U.S. Trade Policy Affects Us

1. How has the increase in trade produced both winners and losers in the U.S. economy?

2. Why does Judy view NAFTA as a threat?

3. Why does free trade represent both an opportunity and a concern for Al?

4. Why does Vicky believe that she would benefit from more open trade?

5. How will U.S. trade policy affect Rick's future plans?

Presenting Your Option

Day One -- Preparing Your Presentation

Your Assignment: Your group has been called upon to appear before the Joint Committee of Congress on Economics. Your assignment is to persuade the committee members that your option should be the basis for U.S. policy. You will be judged on how well you present your option.

Organizing Your Group: Each member of your group will take a specific role. Below is a brief explanation of the responsibilities for each role.

1. *Spokesperson:* Your job is to explain the option of your group to the Joint Committee of Congress on Economics in a three-to-five minute presentation. In preparing your presentation, you will receive help from the other members of your group. You should include arguments from their areas of expertise. Keep in mind, though, that you are expected to take the lead in organizing your group. Read your option and review the background readings to build a strong case for your option.

2. *Economist:* Your job is to advise the spokesperson of your group on how your option would improve economic conditions in the United States. Carefully read your option and then review the background readings from the perspective of an economist who considers the overall direction of the U.S. economy.

3. *Trade Specialist;* Your job is to advise the spokesperson of your group on why your option's position on NAFTA and GATT is best for the country. Carefully read your option, and then review the background readings from the perspective of a trade specialist who evaluates the advantages and disadvantages of U.S. trade agreements.

4. *Foreign Policy Analyst:* Your job is to advise the spokesperson of your group on how your option would serve our international interests. Carefully read your option and then review the background readings from the perspective of an analyst who assesses the relationship between U.S. trade policy and foreign policy goals.

Day Two -- Making Your Case

On Day Two, your spokesperson will deliver a three-to-five minute presentation to the Joint Committee of Congress on Economics. Notes may be used, but the spokesperson should speak clearly and convincingly. During the presentations, you should try to identify the weak points of the other options. After all of the groups have presented their options, members of the committee and the citizen lobbyists will ask you cross-examination questions. Any member of your group may respond during the cross-examination period.

U.S. Trade Policy

Joint Committee of Congress on Economics

Your Role

You serve on a joint committee of the U.S. House of Representatives and the U.S. Senate that considers issues relating to the U.S. economy. As you know from the 1992 elections, economic issues dominate the concerns of American voters. The progress of negotiations on NAFTA and GATT has made U.S. trade policy a particularly important area. In the coming months, you will be called upon to voice your opinion on these agreements. These hearings will help you prepare for that decision by introducing you to three distinct approaches to U.S. trade policy.

Your Assignment

While the three option groups are organizing their presentations, you will meet with citizen lobbyists. The lobbyists will express their personal opinions on the options. After you have heard their views, you should prepare two questions regarding each of the options. Your teacher will collect these questions at the end of the exercise.

As a member of Congress, you hear many contrary proposals on U.S. trade policy. Keep in mind what you have heard from the lobbyists while you prepare your questions. Your primary goal, however, should be to develop questions that are challenging and critical. For example, a good question for Option 1 might be:

If the United States adopts Option 1, how would American workers in low-wage industries be affected?

On Day Two, the three option groups will present their positions. After their presentations are completed, your teacher will call on you and your fellow committee members to ask questions. The Evaluation Form is designed for you to record your impressions of the option groups. Part I should be filled out in class after the option groups make their presentations. Part II should be completed as homework. After this activity is concluded, you may be called upon to explain your evaluation of the option groups.

Making Your Voice Heard

Citizen Lobbyist

Your Role

You are expected to represent the views of one of the characters profiled in Part II of the background readings. Your teacher will assign you to play the role of either Judy, Al, Vicky, or Rick. Like other Americans, you have a vital interest in U.S. trade policy, especially in the U.S. position on NAFTA and GATT. The importance of these issues have brought you to the U.S. Congress to present your opinions on the options to members of the Joint Committee of Congress on Economics.

Your Assignment

While the three option groups are organizing their presentations on Day One, you will present your views to the members of the committee. To prepare yourself, read the first paragraph of each of the options and review the profile of your character in Part II of the background reading. Identify the most important hopes and concerns of your character. What would he or she have to say about the options?

After you have finished your preparations, summarize your opinions for members of the committee. They will take your views into account as they get ready to question the presentations of the option groups. As homework, present your character's assessment of the options in a one-paragraph essay. Your teacher will collect your essay at the end of the exercise.

On Day Two, the three option groups will make brief presentations. If time permits, your teacher will allow you to direct questions toward the option groups. Keep in mind that you are expected to represent the views of your assigned character.

Name: _____

Evaluation Form

Joint Committee of Congress on Economics

Part I

What was the most persuasive argument presented in favor of this option?	What was the most persuasive argument presented against this option?
Option 1	*Option 1*
Option 2	*Option 2*
Option 3	*Option 3*

Part II

Which group presented its option most effectively? Explain your answer.

Focusing Your Thoughts

Instructions: You have had an opportunity to consider three options on U.S. trade policy. Now it is your turn to look at each of the options from your own perspective. Try each one on for size. Think about how the options address your concerns and hopes. You will find that each has its own risks and trade-offs, advantages and disadvantages.

Beliefs

Considering the statements below will help you answer the first three questions of "Your Option Four." Rate each of them according to your personal beliefs:

1 = Strongly Support
2 = Support
3 = Oppose
4 = Strongly Oppose
5 = Undecided

___ The economic prosperity of our trading partners contributes to the prosperity of Americans as well.

___ In the competitive economic world, one country's gain is usually another country's loss.

___ The government has an important role to play in guiding our economic development.

___ Government involvement in the economy interferes with the free market and undermines our economic strength in the long run.

___ The success or failure of trade policy can be judged by how it affects American workers.

___ The most important economic goal is promoting the overall growth of the U.S. economy.

___ Our country's leadership role in upholding the international economic system has contributed to peace and prosperity at home and abroad.

___ Our trading partners have taken advantage of U.S. economic policies to enrich themselves at our expense.

Ranking the Options

Which of the options below do you prefer? Keep in mind that the beliefs you support most strongly should guide your choice. Rank the options, with "1" being the best option for the United States to follow.

___ **Option 1: Promote Free Trade**

___ **Option 2: Protect American Workers**

___ **Option 3: Chart Our Economic Course**

Creating Your Own Option

Your assignment is to create an option that reflects your own beliefs and opinions. You may borrow heavily from one option, or you may combine ideas from two or three options. Or you may take a new approach altogether. There are, of course, no perfect solutions. And there is no right or wrong answer. Rather, you should strive to craft an option that is logical and persuasive. Be careful of contradictions. We cannot raise tariffs to protect American auto workers and at the same time be seen as an international champion of more open trade. The "Your Option Four" worksheet will help you organize your ideas.

Name: _____

Your Option Four

1. What should be the most important principle guiding U.S. trade policy?

2. What should be the role of the government in the U.S. economy?

3. What image of the United States does your option project to the rest of the world?

4. What is the position of your option on NAFTA?

5. What are the two strongest arguments opposing your option?

   A.

   B.

6. What are the two strongest arguments supporting your option?

   A.

   B.

Student Survey

By answering the questions below, you will have an opportunity to compare your views with those of your classmates and other students around the country.

Part I: *Respond Y (yes) or N (no) to the following questions.*

___ The United States should stand up for the principle of free trade.

___ The United States should punish countries with unfair trade practices by closing American markets to their exports.

___ The government should not interfere with the basic forces of the free market system.

___ The government should play an important role in guiding our economic development.

___ The interests of American workers should be our top priority in charting U.S. trade policy.

___ The overall growth of the U.S. economy should be our leading goal in determining U.S. trade policy.

___ U.S. trade policy should serve our foreign policy goals of promoting peace and prosperity in the world.

___ U.S. trade policy should focus only on promoting the economic interests of the United States.

Part II: Below are three courses of action that the United States could pursue. Rank each course of action 1-3, with "1" representing the strongest agreement.

____ 1. The United States should give top priority to upholding the principles of free trade in order to promote U.S. economic growth, even if some Americans will lose their jobs because of changing trade patterns.

____ 2. The United States should give top priority to developing trade policies that protect the interests of American workers, even if the pace of U.S. economic growth is slower.

____ 3. The United States should pursue trade policies that are part of a long-term economic strategy for the country, even if the government is given a leading role in picking winners and losers in the economy.

Name:_____ Grade level(s):_____ # of Students: _____

School:_____ Date: _____

Address:_____ State: _____ Zip: _____

Classroom Survey

Part I: *Record student responses to the following questions.*

Yes	*No*	
___	___	The United States should stand up for the principle of free trade.
___	___	The United States should punish countries with unfair trade practices by closing American markets to their exports.
___	___	The government should not interfere with the basic forces of the free market system.
___	___	The government should play an important role in guiding our economic development.
___	___	The interests of American workers should be our top priority in charting U.S. trade policy.
___	___	The overall growth of the U.S. economy should be our leading goal in determining U.S. trade policy.
___	___	U.S. trade policy should serve our foreign policy goals of promoting peace and prosperity in the world.
___	___	U.S. trade policy should focus only on promoting the economic interests of the United States.

Part II: *Record student preferences regarding the policy options presented below, with "1st" representing the strongest agreement.*

1. The United States should give top priority to upholding the principles of free trade in order to promote U.S. economic growth, even if some Americans will lose their jobs because of changing trade patterns. 1st____, 2nd____, 3rd____

2. The United States should give top priority to developing trade policies that protect the interests of American workers, even if the pace of U.S. economic growth is slower. 1st____, 2nd____, 3rd____

3. The United States should pursue trade policies that are part of a long-term economic strategy for the country, even if the government is given a leading role in picking winners and losers in the economy. 1st____, 2nd____, 3rd____

To participate in a nationwide poll of student attitudes, please return this form by April 30, 1993, to the Choices Education Project, Center for Foreign Policy Development, Box 1948, Brown University, Providence, RI 02912. Respondents will receive a tabulation of nationwide results by early June.

Supplementary Resources for the Teacher

General Agreement on Tariffs and Trade

The General Agreement on Tariffs and Trade (GATT) was designed in 1947 to set and enforce a multilateral, rule-based system of trade. GATT was founded on the principle that free trade fosters competition and forces innovation, improving domestic economies while encouraging international growth. In the opening round of GATT negotiations in 1948, twenty-three countries agreed to tariff reductions on $10 billion worth of trade.

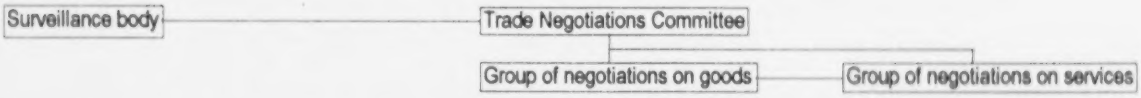
For the first few decades after World War II, the United States dominated world trade policy. GATT was used as a tool to open markets for U.S. exporters, with worldwide growth as a result. Under the first seven rounds of GATT, the average tariff on manufactured goods in developed countries was reduced from about 47 percent in 1947 to 5 percent in the early 1980s. Developing countries gained from the diffusion of technology and resources.

However, since the early 1970s, the champions of multilateral and non-discriminatory trade have been increasingly challenged by protectionists. The Uruguay round of GATT, which began in 1986, has illustrated the current tensions. A larger number of participants (108) and issues have extended the talks past their 1990 deadline, and results still seem elusive.

The controversies focus around the four new areas for negotiation: farm goods, textiles and clothing, intellectual property, and services. Although economists predict that an agreement would raise global income by almost $120 billion a year, general gains have been overshadowed by concentrated losses for certain industries and interests. The most volatile arguments concern the issue of grain. The proposed agreement would reduce subsidized grain exports from the European Community by 21 percent. Politically powerful French farmers fear that the agreement would force many of them out of business and have staged violent protests.

The deadlock in Uruguay puts at risk the very idea of a multilateral system in a time of increasingly aggressive unilateral actions. U.S. trade policy in recent years reflects the international mood. The 1988 Trade Act and the Structural Impediments Initiative talks initiated in 1989 to address non-tariff barriers were taken as evidence that the United States would adopt a tougher tone in GATT negotiations. At the same time, regional trade pacts, such as NAFTA, bilateral arrangements, and anti-dumping and countervailing duties are also viewed by many as constituting a threat to the progress of the GATT. Although the failure of the Uruguay Round would not result in the collapse of GATT, it would represent a serious setback for the principles underlying the agreement.

The Uruguay Round of Multilateral Trade Negotiations: Organizational Chart



General trade liberalization issues	Sector-specific liberalization issues	Improvement of GATT as a legal framework	Improvement of GATT as an institution
1. Tariffs	3. Natural resources	7. GATT articles	13. Dispute settlement
2. Non-tariff measures	4. Textiles and clothing	8. Multi-lateral trade negotiation agreements	14. Functioning of the GATT system
	5. Agriculture	9. Safeguards	
	6. Tropical products	10. Subsidies and countervailing measures	
		11. Trade-related aspects of intellectual property rights	
		12. Trade-related investment measures	

Source: GATT secretariat

Description of the Proposed North American Free Trade Agreement

Prepared by the governments of Canada, the United Mexican States and the United States of America, August 12, 1992 (condensed)

PREAMBLE

The Preamble to the NAFTA sets out the principles and aspirations on which the Agreement is based. It affirms the three countries' commitment to promoting employment and economic growth in each country through the expansion of trade and investment opportunities in the free trade area and by enhancing the competitiveness of Canadian, Mexican and U.S. firms in global markets, in a manner that protects the environment. The Preamble confirms the resolve of the NAFTA partners to promote sustainable development, to protect, enhance and enforce workers' rights and to improve working conditions in each country.

OBJECTIVES

The opening provisions of the NAFTA formally establish a free trade area between Canada, Mexico and the United States, consistent with the General Agreement on Tariffs and Trade (GATT). They set out the basic rules and principles that will govern the Agreement and the objectives that will serve as the basis for interpreting its provisions.

The objectives of the Agreement are to eliminate barriers to trade, promote conditions of fair competition, increase investment opportunities, provide adequate protection for intellectual property rights, establish effective procedures for the implementation and application of the Agreement and for the resolution of disputes and to further trilateral, regional and multilateral cooperation. The NAFTA countries will meet these objectives by observing the principles and rules of the Agreement, such as national treatment, most-favored-nation treatment and procedural "transparency."

Each country affirms its respective rights and obligations under the GATT and other international agreements. For purposes of interpretation, the Agreement establishes that the NAFTA takes priority over other agreements to the extent there is any conflict, but provides for exceptions to this general rule. For example, the trade provisions of certain environmental agreements take precedence over NAFTA, subject to a requirement to minimize inconsistencies with the Agreement.

The opening provisions also set out a general rule regarding the application of the Agreement to sub-federal levels of government in the three countries. In addition, this section defines terms that apply to the whole Agreement, to ensure uniform and consistent usage.

RULES OF ORIGIN

NAFTA eliminates all tariffs on goods originating in Canada, Mexico and the United States over a "transition period." Rules of origin are necessary to define which goods are eligible for this preferential tariff treatment.

This section of the Agreement is designed to ensure that NAFTA benefits are accorded only to goods produced in the North American region — not goods made wholly or in large part in other countries; to provide clear rules and predictable results; and to minimize administrative burdens for exporters, importers and producers trading under NAFTA.

The rules of origin specify that goods originate in North America if they are wholly North American. Goods containing non-regional materials are also considered to be North American if the non-regional materials are sufficiently transformed in the NAFTA region so as to undergo a specified change in tariff classification. In some cases, goods must include a specified percentage of North American content in addition to meeting the tariff classification requirement. The rules of origin section also contains a provision similar to one in the Canada-United States Free Trade Agreement (FTA) that allows goods to be treated as originating when the finished good is specifically named in the same tariff subheading as its parts and it meets the required value content test.

Regional value content may be calculated using either the "transaction-value" or the "net-cost" method. The transaction-value method is based on the price paid or payable for a good; this avoids the need for complex cost accounting systems. The net-cost method is based on the total cost of the good less the costs of royalties, sales promotion, and packing and shipping. Additionally, the net-cost method sets a limitation on allowable interest. Although producers generally have the option to use either method, the net-cost method

must be used where the transaction value is not acceptable under the GATT Customs Valuation Code, and must also be used for certain products, such as automotive goods.

In order to qualify for preferential tariff treatment, automotive goods must contain a specified percentage of North American content (rising to 62.5 percent for passenger automobiles and light trucks as well as engines and transmissions for such vehicles, and to 60 percent for other vehicles and automotive parts) based on the net-cost formula. In calculating the content level of automotive goods, the value of imports of automotive parts from outside the NAFTA region will be traced through the production chain to improve the accuracy of the content calculation. Regional content averaging provisions afford administrative flexibility for automotive parts producers and assemblers.

A de minimis rule prevents goods from losing eligibility for preference solely because they contain minimal amounts of "non-originating" material. Under this rule, a good that would otherwise fail to meet a specific rule of origin will nonetheless be considered to be North American if the value of non-NAFTA materials comprises no more than 7 percent of the price or total cost of the good.

TRADE IN GOODS

National Treatment — The NAFTA incorporates the fundamental national treatment obligation of the GATT. Once goods have been imported into one NAFTA country from another NAFTA country, they must not be the object of discrimination. This commitment extends to provincial and state measures.

Market Access — These provisions establish rules governing trade in goods with respect to customs duties and other charges, quantitative restrictions, such as quotas, licenses and permits, and import and export price requirements. They improve and make more secure the access for goods produced and traded within North America.

Elimination of Tariffs: The NAFTA provides for the progressive elimination of all tariffs on goods qualifying as North American under its rules of origin. For most goods, existing customs duties will either be eliminated immediately or phased out in five or 10 equal annual stages. For certain sensitive items, tariffs will be phased out over a period of up to 15 years. *Tariffs will be phased out from the applied rates in* effect on July 1, 1991, including the U.S. Generalized System of Preferences (GSP) and the Canadian General Preferential Tariff (GPT) rates. Tariff phase-outs under the Canada-U.S. FTA will continue as scheduled under that Agreement. The NAFTA provides that the three countries may consult and agree on a more rapid phase-out of tariffs.

Import and Export Restrictions: All three countries will eliminate prohibitions and quantitative restrictions applied at the border, such as quotas and import licenses. However, each NAFTA country maintains the right to impose border restrictions in limited circumstances, for example, to protect human, animal or plant life or health, or the environment. Special rules apply to trade in agriculture, autos, energy and textiles.

TEXTILES AND APPAREL

This section provides special rules for trade in fibers, yarns, textiles and clothing in the North American market. The NAFTA textiles and apparel provisions take precedence over those of the Multifiber Arrangement and other agreements between NAFTA countries applicable to textile products.

Elimination of Tariff and Non-Tariff Barriers — The three countries will eliminate immediately or phase out over a maximum period of 10 years their customs duties on textile and apparel goods manufactured in North America that meet the NAFTA rules of origin. In addition, the United States will immediately remove import quotas on such goods produced in Mexico, and will gradually phase out import quotas on Mexican textile and apparel goods that do not meet such rules. No NAFTA country may impose any new quota, except in accordance with specified "safeguards" provisions.

Safeguards — If textile or apparel producers face serious damage as a result of increased imports from another NAFTA country, the importing country may, during the "transition period," either increase tariffs or, with the exception of Canada-U.S. trade, impose quotas on the imports to provide temporary relief to that industry, subject to specific disciplines. In the case of goods that meet NAFTA's rules of origin, the importing country may take safeguard actions only in the form of tariff increases.

AUTOMOTIVE GOODS

The NAFTA will eliminate barriers to trade in North

American automobiles, trucks, buses and parts ("automotive goods") within the free trade area, and eliminate investment restrictions in this sector, over a 10-year transition period.

Tariff Elimination — Each NAFTA country will phase out all duties on its imports of North American automotive goods during the transition period. Most trade in automotive goods between Canada and the United States is conducted on a duty-free basis under the terms of either the Canada-U.S. FTA or the Canada-U.S. "Autopact."

Vehicles: Canada and the United States eliminated tariffs on their trade in vehicles under the Canada-U.S. FTA. Under the NAFTA, for its imports from Mexico, the United States will eliminate immediately its tariffs on passenger automobiles; reduce immediately to 10 percent its tariffs on light trucks and phase out the remaining tariffs over five years; and phase out its tariffs on other vehicles over 10 years. For imports from Canada and the United States, Mexico will reduce immediately by 50 percent its tariffs on passenger automobiles and phase out the remaining tariffs over 10 years; reduce immediately by 50 percent its tariffs on light trucks and phase out the remaining tariffs over five years; and phase out its tariffs on all other vehicles over 10 years. Canada will eliminate its tariffs on vehicles imported from Mexico on the same schedule as Mexico will follow for imports from Canada and the United States.

Parts: Each country will eliminate its remaining tariffs on certain automotive parts immediately and phase out duties on other parts over five years and a small portion over 10 years.

ENERGY AND BASIC PETROCHEMICALS

This section sets out the rights and obligations of the three countries regarding crude oil, gas, refined products, basic petrochemicals, coal, electricity and nuclear energy.

In the NAFTA, the three countries confirm their full respect for their constitutions. They also recognize the desirability of strengthening the important role that trade in energy and basic petrochemical goods plays in the North American region and of enhancing this role through sustained and gradual liberalization.

The NAFTA's energy provisions incorporate and build on GATT disciplines regarding quantitative restrictions on imports and exports as they apply to energy and basic petrochemical trade. The NAFTA provides that under these disciplines a country may not impose minimum or maximum import or export price requirements, subject to the same exceptions that apply to quantitative restrictions. The NAFTA also makes clear that each country may administer export and import licensing systems, provided that they are operated in a manner consistent with the provisions of the Agreement. In addition, no country may impose a tax, duty or charge on the export of energy or basic petrochemical goods unless the same tax, duty or charge is applied to such goods when consumed domestically.

This section also provides that import and export restrictions on energy trade will be limited to certain specific circumstances, such as to conserve exhaustible natural resources, deal with a short supply situation or implement a price stabilization plan.

AGRICULTURE

The NAFTA sets out separate bilateral undertakings on cross-border trade in agricultural products, one between Canada and Mexico, and the other between Mexico and the United States. Both include a special transitional safeguard mechanism. As a general matter, the rules of the Canada-U.S. FTA on tariff and non-tariff barriers will continue to apply to agricultural trade between Canada and the United States. Trilateral provisions in the NAFTA address domestic support for agricultural goods and agricultural export subsidies.

Tariffs and Non-Tariff Barriers — Trade between Mexico and the United States: When the Agreement goes into effect, Mexico and the United States will eliminate immediately all non-tariff barriers to their agricultural trade, generally through their conversion to either "tariff-rate quotas" (TRQs) or ordinary tariffs.

The TRQs will facilitate the transition for producers of import-sensitive products in each country. No tariffs will be imposed on imports within the quota amount. The quantity eligible to enter duty-free under the TRQ will be based on recent average trade levels and will grow generally at 3 percent per year. The over-quota duty — initially established at a level designed to equal the existing tariff value of each non-tariff barrier — will progressively decline to zero during either a 10- or 15-year transition period, depending on the product.

Under the NAFTA, Mexico and the United States will eliminate immediately tariffs on a broad range of agricultural products. This means that roughly one-half of U.S.-Mexico bilateral agricultural trade will be duty-free when the Agreement goes into effect. All tariff barriers between Mexico and the United States will be eliminated no later than 10 years after the Agreement takes effect, with the exception of duties on certain highly sensitive products — including corn and dry beans for Mexico, and orange juice and sugar for the United States. Tariff phase-outs on these few remaining products will be completed after five more years.

Mexico and the United States will gradually liberalize bilateral trade in sugar. Both countries will apply TRQs of equivalent effect on third country sugar by the sixth year after the Agreement goes into effect. All restrictions on trade in sugar between the two countries will be eliminated by the end of the 15-year transition period, except that sugar exported under the U.S. Sugar Re-Export Programs will remain subject to most-favored-nation (MFN) tariff rates.

SANITARY AND PHYTOSANITARY MEASURES

This section imposes disciplines on the development, adoption and enforcement of sanitary and phytosanitary (SPS) measures, namely those taken for the protection of human, animal, or plant life or health from risks arising from animal or plant pests or diseases, food additives or contaminants. These disciplines are designed to prevent use of SPS measures as disguised restrictions on trade, while safeguarding each country's right to take SPS measures to protect human, animal or plant life or health.

Basic Rights and Obligations — The NAFTA confirms the right of each country to establish the level of SPS protection that it considers appropriate and provides that a NAFTA country may achieve that level of protection through SPS measures that are based on scientific principles and a risk assessment; are applied only to the extent necessary to provide a country's chosen level of protection; and do not result in unfair discrimination or disguised restrictions on trade.

TECHNICAL STANDARDS

This section applies to standards-related measures, namely standards, governmental technical regulations and the procedures used to determine that these standards and regulations are met. It recognizes the crucial role of these measures in promoting safety and protecting human, animal and plant life and health, the environment and consumers. The three countries have agreed not to use standards-related measures as unnecessary obstacles to trade, and will cooperate and work towards the enhancement and compatibility of these measures in the free trade area.

Basic Rights and Obligations — The NAFTA affirms that each country maintains the right to adopt, apply and enforce standards-related measures, to choose the level of protection it wishes to achieve through such measures and to conduct assessments of risk to ensure that those levels are achieved. In addition, the NAFTA affirms each country's rights and obligations under the GATT Agreement on Technical Barriers to Trade and other international agreements, including environmental and conservation agreements.

The NAFTA also sets out certain disciplines on the use of standards-related measures, with a view to facilitating trade between the NAFTA partners. For example, each country must ensure that its standards-related measures provide both national treatment and most-favored-nation treatment. That is, they must ensure that goods or specified services from the other two countries are treated no less favorably than like goods or services of national origin, and like goods or services from non-NAFTA countries.

EMERGENCY ACTION

This section of the Agreement establishes rules and procedures under which a NAFTA country may take "safeguard" actions to provide temporary relief to industries adversely affected by surges in imports. A transitional bilateral safeguard mechanism applies to emergency actions taken against import surges that result from tariff reductions under the NAFTA. A global safeguard applies to import surges from all countries.

The Agreement's procedures governing safeguard actions provide that relief may be imposed for only a limited period of time and require that the NAFTA country taking action must compensate the NAFTA country against whose good the action is taken. If the countries are not able to agree on the appropriate compensation, the exporting country may take trade measures of equivalent effect to compensate for the trade effect of the safeguard.

REVIEW OF ANTIDUMPING AND COUNTERVAILING DUTY MATTERS

The NAFTA establishes a mechanism for independent binational panels to review final antidumping (AD)

and countervailing duty (CVD) determinations by administrative authorities in each country. Each country will make those changes to its law necessary to ensure effective panel review. This section also sets out procedures for panel review of future amendments to each country's antidumping and countervailing duty laws. In addition, it establishes an "extraordinary challenge" procedure to deal with allegations that certain actions may have affected a panel's decision and the panel review process. Finally, the NAFTA creates a safeguard mechanism designed to remedy instances in which application of a country's domestic law undermines the functioning of the panel process.

GOVERNMENT PROCUREMENT

The Agreement opens a significant portion of the government procurement market in each NAFTA country on a non-discriminatory basis to suppliers from the other NAFTA countries for goods, services and construction services.

CROSS-BORDER TRADE IN SERVICES

The NAFTA expands on initiatives in the Canada-U.S. FTA and the Uruguay Round of multilateral trade negotiations to create internationally-agreed disciplines on government regulation of trade in services. The cross-border trade in services provisions establish a set of basic rules and obligations to facilitate trade in services between the three countries.

National Treatment — The Agreement extends to services the basic obligation of national treatment, which has long been applied to goods through the GATT and other trade agreements. Under NAFTA's national treatment rule, each NAFTA country must treat service providers of the other NAFTA countries no less favorably than it treats its own service providers in like circumstances.

With respect to measures of a state or province, national treatment means treatment no less favorable than the most favorable treatment that the state or province accords to the service providers of the country of which it forms a part.

LAND TRANSPORTATION

The NAFTA provides a timetable for the removal of barriers to the provision of land transportation services between the NAFTA countries and for the establishment of compatible land transport technical and safety standards. It provides for the phase out of restrictions on cross-border land transportation services among the three countries in order to create equal opportunities in the North American international land transportation market. The provisions are designed to ensure that the land transportation services industries of the three countries will have a full opportunity to enhance their competitiveness without being placed at a disadvantage during the transition to liberalized trade.

TELECOMMUNICATIONS

NAFTA provides that public telecommunications transport networks ("public networks") and services are to be available on reasonable and non-discriminatory terms and conditions for firms or individuals who use those networks for the conduct of their business. These uses include the provision of enhanced or value-added telecommunications services and intracorporate communications. However, the operation and provision of public networks and services have not been made subject to the NAFTA.

INVESTMENT

The NAFTA removes significant investment barriers, ensures basic protections for NAFTA investors and provides a mechanism for the settlement of disputes between such investors and a NAFTA country.

Coverage — This section covers investments in one country by NAFTA investors from another NAFTA country. NAFTA investors include all enterprises with substantial business activities in a NAFTA country. Investment covers all forms of ownership and interests in a business enterprise, tangible and intangible property and contractual investment interests.

Non-Discriminatory and Minimum Standards of Treatment — Each country will treat NAFTA investors and their investments no less favorably than its own investors — national treatment - and investors of other countries — most-favored-nation treatment. With respect to measures of a state, provincial or local government, national treatment is defined to mean treatment no less favorable than the most favorable treatment accorded to investors of the country of which it forms a part. In addition, each country must provide investments of NAFTA investors treatment in accordance with international law, including fair and equitable treatment and full protection and security.

COMPETITION POLICY, MONOPOLIES AND STATE ENTERPRISES

The NAFTA includes provisions on anticompetitive

government and private business practices, in recognition that disciplines in this area will help fulfill the objectives of the Agreement.

Competition Policy – Each NAFTA country will adopt or maintain measures against anticompetitive business practices and will cooperate on issues of competition law enforcement and other competition issues.

FINANCIAL SERVICES

The NAFTA establishes a comprehensive principles-based approach to disciplining government measures regulating financial services. This section covers measures affecting the provision of financial services by financial institutions in the banking, insurance and securities sectors as well as other financial services. The section also sets out certain country-specific liberalization commitments, transition periods for compliance with the agreed principles and certain reservations listed by each country.

Principles – Commercial Presence and Cross-Border Services: Under the Agreement, financial service providers of a NAFTA country may establish in any other NAFTA country banking, insurance, and securities operations as well as other types of financial services. Each country must permit its residents to purchase financial services in the territory of another NAFTA country. In addition, a country may not impose new restrictions on the cross-border provision of financial services in a sector, unless the country has exempted that sector from this obligation.

Non-Discriminatory Treatment: Each country will provide both national treatment, including treatment respecting competitive opportunities, and most-favored-nation treatment to other NAFTA financial service providers operating in its territory. Under the Agreement, any measure that does not disadvantage financial service providers of another NAFTA country in their ability to provide financial services, by comparison to domestic providers, is deemed to provide equality of competitive opportunity.

INTELLECTUAL PROPERTY

Building on the work done in the GATT and various international intellectual property treaties, NAFTA establishes a high level of obligations respecting intellectual property. Each country will provide adequate and effective protection of intellectual property rights on the basis of national treatment and will provide effective enforcement of these rights against infringement, both internally and at the border.

The Agreement sets out specific commitments regarding the protection of copyrights, including sound recordings; patents; trademarks; plant breeders' rights; industrial designs; trade secrets; integrated circuits (semiconductor chips); and geographical indications.

TEMPORARY ENTRY FOR BUSINESS PERSONS

Taking account of the preferential trading relationship between the NAFTA countries, this section sets out commitments by the three countries to facilitate on a reciprocal basis temporary entry into their respective territories of business persons who are citizens of Canada, Mexico, or the United States. The NAFTA does not create a common market for the movement of labor. Each NAFTA country maintains its rights to protect the permanent employment base of its domestic labor force, to implement its own immigration policies and to protect the security of its borders.

This section's rules governing entry of business persons, constructed along the lines of similar provisions of the Canada-U.S. FTA, are tailored to meet the needs of all NAFTA partners.

Each country will grant temporary entry to four categories of business persons: business visitors engaged in international business activities for the purpose of conducting activities related to research and design, growth, manufacture and production, marketing, sales, distribution, after-sales service and other general services; traders who carry on substantial trade in goods or services between their own country and the country they wish to enter, as well as investors seeking to commit a substantial amount of capital in that country, provided that such persons are employed or operate in a supervisory or executive capacity or one that involves essential skills; intra-company transferees employed by a company in a managerial or executive capacity or one that involves specialized knowledge and who are transferred within that company to another NAFTA country; and certain categories of professionals who meet minimum educational requirements or who possess alternative credentials and who seek to engage in business activities at a professional level in that country.

INSTITUTIONAL ARRANGEMENTS AND DISPUTE SETTLEMENT PROCEDURES

Institutional Arrangements – This section establishes

the institutions responsible for implementing the Agreement, ensuring its joint management and for avoiding and settling any disputes between the NAFTA countries regarding its interpretation and application.

Trade Commission: The central institution of the Agreement is the Trade Commission, comprising Ministers or cabinet-level officers designated by each country. Regular meetings are to be held annually, although the day-to-day work of the Commission will be carried out by officials of the three governments participating in the various committees and working groups mandated by the Agreement, operating on the basis of consensus.

ADMINISTRATION OF LAWS

Procedural "Transparency" — This section provides rules designed to ensure that laws, regulations and other measures affecting traders and investors will be accessible and will be administered fairly and in accordance with notions of due process by officials in all three countries. Each country will also ensure, under its domestic laws, independent administrative or judicial review of government action relating to matters covered by the NAFTA.

EXCEPTIONS

The NAFTA includes provisions that ensure that the Agreement does not constrain a country's ability to protect its national interests.

FINAL PROVISIONS

Entry into Force - This section provides that the Agreement will enter into force on January 1, 1994, upon completion of domestic approval procedures.

Accession — The NAFTA provides that other countries or groups of countries may be admitted into the Agreement if the NAFTA countries agree, and subject to terms and conditions that they require and to the completion of domestic approval in each country.

Amendments and Withdrawal — This section also provides for amendments to the Agreement, subject to domestic approval procedures. Any country may withdraw from the Agreement on six-months' notice.

SUMMARY OF ENVIRONMENTAL PROVISIONS

The three NAFTA countries have committed in the NAFTA to implementing the Agreement in a manner consistent with environmental protection and to promoting sustainable development. Specific provisions throughout the Agreement build upon these commitments.

The trade obligations of the NAFTA countries under the specified international environmental agreements regarding endangered species, ozone-depleting substances and hazardous wastes will take precedence over NAFTA provisions, subject to a requirement to minimize inconsistency with the NAFTA. This ensures that the NAFTA will not diminish a country's right to take action under these environmental agreements.

The Agreement affirms the right of each country to choose the level of protection of human, animal or plant life or health or of environmental protection that it considers appropriate.

NAFTA also makes clear that each country may maintain and adopt standards and sanitary and phytosanitary measures, including those more stringent than international standards, to secure its chosen level of protection.

The NAFTA countries will work jointly to enhance the protection of human, animal and plant life and health and the environment.

The Agreement provides that no NAFTA country should lower its health, safety or environmental standards for the purpose of attracting investment.

When a dispute regarding a country's standards raises factual issues concerning the environment, that country may choose to have the dispute submitted to NAFTA dispute settlement procedures rather than under the procedures of other trade agreements. This same option is available for disputes concerning trade measures taken under specified international environmental agreements.

NAFTA dispute settlement panels may call on scientific experts, including environmental experts, to provide advice on factual questions related to the environment and other scientific matters.

In dispute settlement, the complaining country bears the burden of proving that another NAFTA country's environmental or health measure is inconsistent with the NAFTA.

Publications List

CHOICES FOR THE 21ST CENTURY

The Choices for the 21st Century Education Project develops curricula for high schools and colleges on current foreign policy issues and offers workshops, institutes, and in-service programs for high school teachers. Course materials place special emphasis on the importance of educating students in their participatory role as citizens. All units incorporate the work of academics and policymakers from a range of perspectives and are classroom tested prior to publication. A new unit is published every three months during the academic year, and all units are updated regularly. For current information on new titles and revisions, call the Choices Education Project at (401) 863-3155.

Reproducible Units

- U.S. Trade Policy: Competing in a Global Economy (February 1993, 43 pages)
- U.S. Immigration Policy in an Unsettled World (October 1992, 52 pages)
- Coming to Terms with Power: U.S. Choices after World War II (October 1992, 62 pages)
- Global Environmental Problems: Implications for U.S. Foreign Policy (Revised October 1992, 40 pages)
- The Arab-Israeli Conflict: Looking for a Lasting Peace (Revised July 1992, 55 pages)
- Facing a Disintegrated Soviet Union (Revised July 1992, 45 pages)
- The Role of the United States in a Changing World (Revised June 1992, 34 pages)

High School Textbook

- In the Shadow of the Cold War: The Caribbean and Central America in U.S. Foreign Policy (Revised 1993, 61 pages, teacher's resource book also available)

College Textbook

- The Role of the United States in a Changing World: Choices for the 21st Century (1993, 181 pages; order from The Dushkin Publishing Group, (800) 243-6532)

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